



FLAGSTAFF, ARIZONA

2008

Expanding
Flagstaff's
Horizons
with Access
to the World

**City of Flagstaff
Comprehensive Annual
Financial Report**

**Fiscal Year Ended
June 30, 2008**



Comprehensive Annual Financial Report

For Fiscal Year Ended
June 30, 2008

City of Flagstaff, Arizona



Prepared By:
Management Services Department
Finance and Budget Division

City of Flagstaff
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2008

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City of Flagstaff

December 16, 2008

The Honorable Mayor, City Council and Citizens of the City of Flagstaff, Arizona

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) for the City of Flagstaff, Arizona (City) for the fiscal year ended June 30, 2008, as required by Article VI, Section 5 of the City Charter. The report was prepared by the City's Finance Division in accordance with U.S. generally accepted accounting principles (GAAP) and audited in accordance with U.S. generally accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City of Flagstaff. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Flagstaff has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Flagstaff's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Flagstaff's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Nordstrom & Associates, PC, a firm of licensed certified public accountants have audited the City of Flagstaff's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Flagstaff for the fiscal year ended June 30, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Flagstaff's financial statements for the fiscal year ended June 30, 2008, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Flagstaff was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Flagstaff's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Flagstaff's MD&A can be found immediately following the report of the independent auditors.

CITY OF FLAGSTAFF PROFILE

Flagstaff is located in Coconino County, Arizona at the intersection of Interstate 17 and Interstate 40. Flagstaff is the largest city in Northern Arizona and is the regional center and county seat for Coconino County, the second largest county in the 48 contiguous states. The current population as of the 2008 estimate by the Arizona Department of Economic Security is approximately 64,200. The City of Flagstaff became a town in 1894, incorporated as a city in 1928 and its boundaries currently encompass an area of just over 64 square miles. Flagstaff is nestled at the base of the San Francisco Peaks and is surrounded by one of the largest ponderosa pine forests on earth. Flagstaff drew its name from a very tall pine tree made into a flagpole in 1876 to celebrate our nation's centennial. At nearly 7,000 feet, Flagstaff is one of the highest elevation cities in the United States.

Flagstaff operates under a council-manager form of government as provided by its Charter. The Mayor is elected at large on a non-partisan ballot for a two-year term and six City Council members are elected at large on a non-partisan ballot for a four-year term. The City Council appoints the City Manager, who has full responsibility for carrying out Council policies and administering City operations. The City manager, in turn, appoints City employees and department heads under service procedures specified by Charter. City service departments provide a full range of services including General Government, Police and Fire Protection, Environmental Services, Transportation, Library, Parks and Recreation, Airport, Water and Sewer, and Stormwater Services.

The annual budget serves as the foundation for Flagstaff's financial planning and control. The City Council formally adopts the budget and legally allocates, or appropriates, available monies for all funds and entities related to the City. All of these funds and entities are included in the basic financial statements. The City Manager submits to the Council each spring a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Two public hearings are held prior to the budget's final adoption in order to obtain taxpayer comments. The budget is legally enacted through the passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year. The legal level of control for the budget is the department level. Additional expenditures may be authorized for unanticipated and/or inadequately budgeted events threatening the public health or safety as prescribed in the State Constitution, Article 9, Section 20.

FACTORS AFFECTING THE CITY'S FINANCIAL CONDITIONS

Local economy

The overall economic condition of the City had mixed economic indicators during the fiscal year. Economic strength was positively reflected through the growth in primary property tax from the prior fiscal year (5.1%). However, state shared sales tax, local sales tax, and building related receipts experienced significant declines compared to budget (10.9%, 5.2%, and 30.8% respectively). The City issued approximately half of new residential and construction permits than it had the previous year. Within City sales tax categories, construction sales tax was up 1.0%, total retail sales were down 2.9%, and auto sales were down 11.4%. Median home prices decreased and housing inventory increased, mirroring results on both a state and national level.

Since the local sales tax was initially approved by voters in 1964, the City has received sales tax revenue below that received for the previous year only twice. In Fiscal Year 1979 a decrease of 1.9% or \$47,000 was realized and in Fiscal Year 1985, tax revenues were down 2.2% (\$85,000) as taxpayers had removed the sales tax on food in the prior year election. Ending Fiscal Year 2008, 5.2% (\$864,157) underbudget is unprecedented. Both local and state sales tax revenues are anticipated to drop even lower than FY2008 levels for FY2009.

The City had been anticipating the expansion of the local Mall, which is a regional shopping center, to enhance local sales tax revenue and this effort has not met financial goals. The first phase of the Mall expansion was partially completed in April 2007 however two of the stores included in this expansion are currently closing their doors. A portion of the Auto Mall has been completed, however the project has stalled due to the overall decline in the auto sales industry. The second phase of the Mall Development is indefinitely on hold until market conditions improve. Other commercial and residential developments have been delayed. While there continues to be healthy interest in our community, very few projects are actually getting in the ground and going vertical at this time due to difficulties in a tight credit market.

LONG-TERM FINANCIAL PLANNING

The City's responsiveness to emerging economic challenges and its careful long-range planning have been key factors in Flagstaff's fiscal health. The City continues to plan in a five to ten year horizon as economic conditions change.

STRATEGIC FINANCIAL PLAN

Flagstaff's financial plan requires many elements working in concert with one another. Some of these financial plan elements are financial resource planning, multi-year budget planning, strategic capital improvement project planning and debt management, all of which are further identified below. Currently, due to the economic downturn, Flagstaff's financial forecast generally includes decreases in sales tax, income tax, and building related revenues. User fees include very modest revenue growth, and are balanced against the continued increases in demand for city services such as police, fire, transportation and social services. Financial Services management role will be to maintain and enhance the continued financial stability for the City of Flagstaff.

Financial Resource Planning – Strategic financial planning begins with determining the City's fiscal capacity based upon long-term financial forecasts of recurring available revenues. Financial forecasts coupled with financial trend analysis help preserve the fiscal well being of Flagstaff. Strategic financial capacity planning is

a critical element to reach long-term financial stability goals and to determine special financial needs for critical objectives of the City Council.

Multi-Year Budget Planning – Multi-year budget planning encompasses long-range operating expenditure plans (including the operating impacts of capital projects), which are linked to the community expectations and broad goals of the City Council. The multi-year approach provides a better opportunity for staff to change its financial paradigm from what do we need this year to how do we accomplish our service objectives over-time, given our financial capacity. While the City is required to adopt an annual budget to meet State statutory requirements, Flagstaff builds a financial plan for the next five years to help anticipate future impacts and ensure achievement of City objectives.

Strategic Capital Improvement Project Planning – Flagstaff Capital Improvement Projects are planned for five or more years and analyzed using City specific prioritization criteria. The operating cost impacts of projects are also planned and considered in developing future operating budget plans. Projects with significant operating impacts are carefully timed to avoid contingent liabilities, which future operating resources cannot meet. Pay-as-you-go funding sources are also conservatively estimated to avoid over-committing to capital construction using revenues that are not certain. To the extent debt financing is used and/or required, capital project plans are sized to conform to existing debt management policies.

CASH MANAGEMENT POLICIES AND PRACTICES

The City's investment policy is to invest all temporarily idle cash in investments authorized by City resolution or State statute at the highest available interest rate while emphasizing safety of principal and liquidity. Excess funds are invested in the State Treasurer's Local Government Investment Pool (LGIP) and in obligations of the U.S. Treasury and its agencies, demand deposits and repurchase agreements. The maturities of the investments range from one day to 6 years. The average yield on investments was 4.2%.

RISK MANAGEMENT

The City maintains a self-insurance program for liability claims, unemployment compensation, health and workers' compensation. In addition, the City's Risk Management Division employs various risk control techniques, such as employee accident prevention training and inspection of City property and facilities, to minimize accident-related losses. Additional information on the City of Flagstaff risk management activity can be found in Note V.A. in the notes to the financial statements.

PENSION AND OTHER POST-EMPLOYMENT BENEFITS

All full-time employees of the City are covered by one of three pension plans. The State Retirement System is for the benefit of the employees of the state and certain other governmental jurisdictions. All full-time City employees, except fire and police personnel, are included in the plan that is a multiple-employer, cost-sharing defined benefit pension plan. All police and fire personnel participate in the Public Safety Retirement System that is an agent multiple-employer plan. In addition, the Mayor and Council members contribute to the State's Elected Officials plan that is also a multiple-employer cost-sharing pension plan.

Additional information on the City of Flagstaff pension arrangements can be found in Note V.C. in the notes to the financial statements.

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

During FY 2007–2008, Flagstaff continued work to maintain basic services while also fulfilling the City Council goals. These goals provide for strategies that move the community closer to economic viability and sustainable community objectives. The outcomes of these strategies have been many and in certain cases require sustained efforts over a period of time.

The following are the some of the goals of the Council and the City's' accomplishments in FY2007–2008.

Economic Development/Redevelopment

The City looks to maintain and strengthen Flagstaff as the regional center for retail, employment, and hospitality while enhancing the quality of life for our residents. The economic investment accomplishments include:

- **Entrepreneurial Development:** The City through a combination of a \$2.5 million dollar Economic Development Administration grant and additional bond financing has developed the Northern Arizona Center for Emerging Technologies that develops start-up science, technology and clean energy businesses to provide higher paying jobs in the future. The facility is part of the Flagstaff Innovation Campus that includes the USGS Campus and a proposed privately developed science and technology park.
- **Workforce Development:** The City through a partnership with Northern Arizona University (NAU) and Coconino Community College (CCC) has developed a number of programs to provide specialized training for local employers. The City also launched the University to Business Connection that provides senior level and graduate students to companies along with faculty supervision to develop new products or reinforce existing product lines.
- **Community Investment Marketing:** The City continued an aggressive marketing campaign in national trade magazines to raise awareness about the advantages of our community to potential developers, lenders, investors, and tenants.
- **East Flagstaff Gateway Area:** Complete a Redevelopment Area Plan for East Flagstaff so that it serves as an anchor and gateway to the City. The Mall expansion and Auto Park development are two key components to this strategy. The Mall Phase I expansion was partially completed in the fall of 2007 and several of the auto dealers in the Auto Park opened in late 2008.
- **Aspen Place at Sawmill:** This development project broke ground in 2007 and will create a mixed-use neighborhood center. It will serve as an anchor to the Butler Avenue corridor and provide an eventual link to the Southside and NAU. This project was partially funded by a special assessment bond (\$19.1 million). New Frontiers Natural Market opened in May 2008. Three additional buildings are under construction and should be completed in mid 2009.
- **Downtown:** The City continues to address issues regarding the Downtown area continued economic viability. Issues include on-street parking, store turnover, event impacts, and imaging. The City is evaluating the implementation of parking fees and the entire management of parking in the downtown area to enhance stewardship and maintenance concerns.

Fiscal Health

The City shall maintain good fiscal health through sound financial management and fiscal integrity. Fiscal accomplishments include:

- Continued work with Environmental Services staff to incorporate sustainable goods and processes in the procurement process. The City purchased hybrid vehicles for police, public works, and community development.
- Continued exploration of electronic opportunities for online access to employees and citizens to reduce redundancy and paperwork. The City implemented online access to utility billing, employee access to payroll information, and electronic fund processing for accounts receivable. Future implementation efforts include electronic fund payments to vendors, paperless payroll, and online vendor registration.
- The leveraging of grants for City projects and programs. \$18.8 million in grant revenue was budgeted for FY2008 of which \$15 million was received.

Public Safety

The City Council recognizes that the role of public safety encompasses a broad array of interrelated activities. Public order and quality of life issues must be addressed on a broad front through a partnership of shared responsibility and trust between Police, Fire, other city departments, civic organizations and the community. Community safety and well-being must be built from within each neighborhood and cannot be imposed from the outside. The City and the Police department conducted numerous community activities that strengthen neighborhoods. These included 118 block watch meetings, youth celebrations and formal gang and drug education in the schools, and two citizen police academies. Activities also include our community partners. The City funds after school program activities at various school district sites and works with the United Way, who supports numerous agencies in the community to promote the basic skills children need and other services.

Affordable Housing

The goals are diverse to address affordable housing in a community with such a severe deficiency. Affordable housing includes the needs of the community from rentals, first time home buyers, homeless and general affordability issues across the entire workforce. There is no one tool that will solve this issue but must be dealt with as a community. Efforts for FY2008 included:

- City Council approval of 61 permanently affordable rental units, the incorporation of 10 condominium units and 3 Habitat for Humanity homes as part of the permanent affordability program
- Sales of homes in the third phase of Rio homes
- Homebuyer education and assistance
- Housing stabilization assistance
- Rehabilitation of a family homeless shelter
- Administration funding for a winter homeless shelter

Capital Improvements

Programmed capital infrastructure expenditures facilitate planned growth, economic development and protects existing community investments. Allocating resources through a coordinated planning and engineering process, with high levels of public involvement, assures our community is shaped in alliance with citizen support. The Capital Division worked on numerous projects through the year and continues to refine

the process. Elements that were implemented included a schedule based work program, comprehensive 5-year CIP program, team chartering, project review process, and monthly financial reporting.

Customer Service

A positive customer service culture will enhance the delivery of service both externally and internally. The Customer Service Committee used the results of an internal customer service survey conducted in 2007 to improve customer service through enhanced awareness and additional training. In addition, an Ethics Policy has developed to underscore the importance of maintaining the highest standards of personal integrity, truthfulness, honesty, and fairness in carrying out public duties and multiple staff trainings were conducted in January 2008 to increase awareness on this topic.

Planning for Growth

With a finite supply of land, we have to provide for the region's growth in a manner that balances growth and conservation. Efforts for FY2008 include the continued implementation of the Regional Plan, continued development of a transportation plan, continued neighborhood planning including Southside and McMillan Mesa, and the completion of the Community Economic Sustainability (Nexus) Study.

Collaboration

Collaboration strengthens the community by strengthening partnerships with sovereign nations, public, non-profit and private agencies and developing collaborative goals at all levels. The City continues its role with the alliance group that is comprised of Coconino County, Northern Arizona University, Coconino Community College, and the Flagstaff Unified School District. Other collaborative efforts include new and/or strengthened relationships with the Coconino Plateau Water Advisory Council, the Statewide Water Advisory Group, and the Northern Arizona Intergovernmental Public Transportation Authority.

Quality of Life

Consideration is given to quality of life preservation and enhancement in all City actions and appropriations. This is a diverse objective with many outcomes. This year brought about a year of implementation for the many projects that will add value and character to our community. City efforts included the acquisition of the Red Gap Ranch to assure future water supply, the expansion of sustainability objectives, continuing of brownfield efforts, and the securing of funding to provide after school family learning and literacy programs.

Forest Health

Flagstaff resides in the middle of the largest stand of Ponderosa pine in the world. This provides a key element to the City situated at the base of the San Francisco Peaks at a 7,000 foot elevation a cool mountain environment. Unfortunately with this amenity comes the risk of catastrophic wildfire. The City continues to be proactive in the implementation of a major forest health initiative. In fact, the City is recognized nationally for its successful program. The program includes active thinning on City property within the City, community outreach to educate and assist the private sector in good health management, assistance with other governmental agencies in forest management and collaboration with the Forest Service and environmental groups in a forest management plan for the areas in and around City property.

The outcome of the program has been an aggressive thinning of the forest and excellent public education resulting in private sector management of their trees. The Greater Flagstaff Forest Partnership, with collaboration of public, private and environmental groups, has successfully initiated major thinning projects in the Federal land that meets all parties' objectives.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Flagstaff for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the 14th consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility.

The City also received the GFOA award for Distinguished Budget Presentation for our 2008–2009 annual budget (15 years in a row) with special performance measures recognition (2 years in a row). In order to qualify for the Distinguished Budget Presentation award, the City's budget document was judged to be proficient in all categories, a Policy Document, a Financial Plan, an Operation Guide, and as a Communication Device.

A special word of appreciation is due to Maryellen Pugh, Accounting Manager and to the entire finance staff who prepared this CAFR.

Acknowledgment should also be made for the interest and support received from members of the Mayor and Council, the office of the City Manager, and the willing cooperation of the other operating and staff departments of the City. The cooperative assistance of our independent auditors, Nordstrom and Associates in association with Walker & Armstrong, also contributed significantly to this report.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Mary Jo Jenkins', followed by a horizontal line.

Mary Jo Jenkins
Management Services Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Flagstaff
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



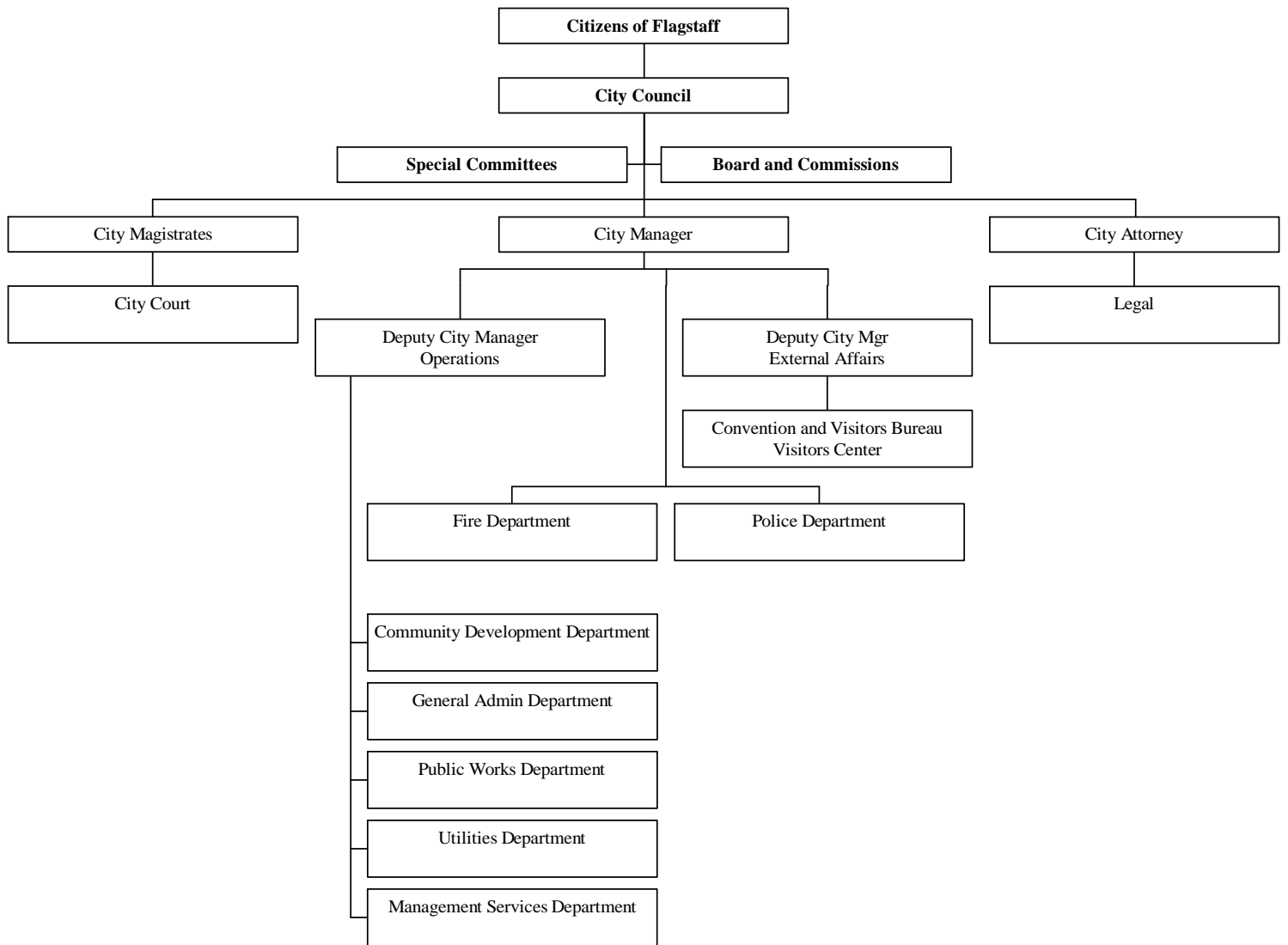
Oliver S. Cox

President

Jeffrey R. Emer

Executive Director

City of Flagstaff



City of Flagstaff, Arizona
List of Elected and Appointed Officials
June 30, 2008

Elected Officials

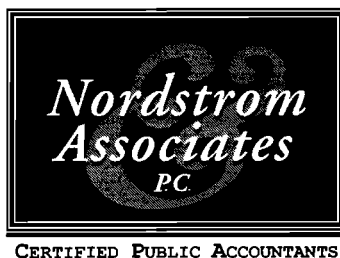
Mayor	Sara Presler
Vice Mayor	Al White
Councilmember	Karla Brewster
Councilmember	Coral Evans
Councilmember	Joseph P. Haughey
Councilmember	Scott Overton
Councilmember	Rick Swanson

Appointed Officials

City Manager	Kevin Burke
City Attorney	Patricia Boomsma
City Treasurer	Mary Jo Jenkins
City Clerk	Margie Brown



Bruce J. Nordstrom, CPA
Godfrey C. Loper, Jr., CPA
Marjorie T. McClanahan, CPA
Timothy D. Hansen, CPA



MEMBERS

American Institute of
Certified Public Accountants
Arizona Society of Certified
Public Accountants

INDEPENDENT AUDITOR'S REPORT

**Honorable Mayor and Members of the City Council
City of Flagstaff, Arizona**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of City of Flagstaff, Arizona (the City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of City of Flagstaff, Arizona, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the general, highway user revenue, transportation and BBB funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*; and GASB Statement No. 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)*, for the year ended June 30, 2008, which represents a change in accounting principles.

The management's discussion and analysis on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund statements and schedules, capital assets schedules, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules, and capital assets schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2008 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Nordstrom & Associates, P.C.

Flagstaff, Arizona
December 12, 2008

MANAGEMENT DISCUSSION AND ANALYSIS

As management of the City of Flagstaff (the City), we offer readers of the City's financials statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages iii –x of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$563 million (net assets). Of this amount \$80.3 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$22 million during the fiscal year. This increase is related to capital improvement activity both internally funded and funded through contributions from private development. Private development contributions totaled \$7.4 million for the year ended June 30, 2008 with one major project, Flagstaff Mesa Subdivision (\$4.4 million) and twelve other projects totaling \$3 million. Other major capital asset additions include Sunnyside neighborhood improvements, the Wildcat Wastewater Plant upgrade, Rio de Flag drainage improvements, East Flagstaff Gateway, Aspen Place at Sawmill, Fire stations, Aquaplex, and the Business Incubator.
- As of June 30, 2008, the City's governmental funds reported combined ending fund balances of \$64.2 million, an decrease of \$30.8 million in comparison with the prior fiscal year. This decrease is directly attributable to the use of reserved fund balance for capital projects. Approximately 67.4% of this total amount (\$43.2 million) is unreserved fund balance available for spending at the government's discretion.
- As of June 30, 2008, total unreserved fund balance for the general fund was \$27.5 million, or 55.3% of total general fund expenditures (\$49.7 million).
- As of June 30, 2008, the City's proprietary funds reported combined total net assets of \$294.9 million, and total unrestricted net assets of \$16.5 million. \$13.2 million of the unrestricted net assets are in the Water and Wastewater Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some

items that will only result in cash flows in future fiscal periods such as revenues pertaining to uncollected taxes or expenses pertaining to earned but unused vacation leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include Police, Fire, Community Development, Parks and Recreation, City Council, City Manager, City Attorney, Municipal Courts, Human Resources, Risk Management, Information Services, Financial Services, Library, and Economic Development. The business-type activities of the City include Water and Wastewater, Airport, Environmental Services, and Stormwater operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also the Municipal Facilities Corporation (MFC). The MFC, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government as a blended component unit.

The government-wide financial statements can be found on pages 15 – 17 of this report.

Fund financial statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: **governmental** funds, **proprietary** funds, and **fiduciary** funds.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual government funds organized according to their type (special revenue and debt service). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, Highway User Revenue fund, Transportation fund, BBB fund, and the Capital Projects Bond Construction fund which are all considered to be major funds. Data from the remaining governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General fund, Special Revenue funds, Capital Projects funds, Debt Service funds, and Enterprise funds. A budgetary comparison statement has been provided for the General and other major governmental funds to demonstrate compliance with the respective budgets.

The basic governmental fund financial statements can be found on pages 18 – 29 of this report.

Proprietary funds: Proprietary funds are generally used to account for services for which the City charges customers – either outside customers, or departments of the City. Proprietary funds provide the same type of information shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** are used to report the same function presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for Water and Wastewater, the Airport, Environmental Services which includes solid waste collection, and Stormwater. All are considered to be major funds of the City.
- **Internal Service funds** are used to report activities that provide supplies and services for certain City programs and activities. The City uses an internal service fund to account for its workers compensation, health insurance, other risk related activity including claims adjustment, and general liability and property insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service fund is combined into a single, aggregated presentation in the proprietary fund statements. Individual fund data for the internal service fund is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 30–37 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. As of June 30, 2008 this fund has been closed.

The basic fiduciary fund financial statements can be found on pages 38–39 of this report.

Notes to the Financial Statements

The notes to the financial statement provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 40–80 of this report.

Combining statements

The combining statements referred to earlier in connection with non-major governmental funds are presented on pages 82–85.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information concerning the City's capital asset activity. Other supplementary information can be found on page 88–90 of this report.

GOVERNMENT WIDE STATEMENTS FINANCIAL ANALYSIS

Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$563 million as of June 30, 2008.

Of the City's net assets, 81.8% reflects its investment of \$460.8 million in capital assets (e.g. land, buildings, and equipment), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

Net Assets June 30, 2008 and 2007 (in thousands of dollars)						
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 92,134	\$ 125,511	\$ 33,875	\$ 67,196	\$ 126,009	\$ 192,707
Capital assets	283,113	243,623	330,791	295,356	613,904	538,979
Total assets	375,247	369,134	364,666	362,552	739,913	731,686
Long-term liabilities	84,527	88,765	62,243	58,397	146,770	147,162
Other liabilities	22,327	25,464	7,796	18,081	30,123	43,545
Total liabilities	106,854	114,229	70,039	76,478	176,893	190,707
Invested in capital assets, net of related debt	184,033	204,595	276,783	264,382	460,816	468,977
Restricted	20,330	13,796	1,594	2,425	21,924	16,221
Unrestricted	64,030	36,514	16,250	19,267	80,280	55,781
Total net assets	\$ 268,393	\$ 254,905	\$ 294,627	\$ 286,074	\$ 563,020	\$ 540,979

Total assets increased due to the addition of capital projects. Total liabilities decreased due to the application of debt principal payments.

A portion of the City's net assets, \$21.9 million (3.9%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$80.3 million (14.3%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for the business-type activities.

Current assets for governmental activities decreased by 26.6% (\$33.4 million). This is due to spending both unrestricted and restricted cash and investments for the planned completion of a number of capital projects.

Capital assets of the governmental activities, funded through debt proceeds, grants, and contributions, increased by 16.2% (\$39.5 million) due largely to Aspen Place at Sawmill (\$12 million), Aquaplex (\$12.9 million), Business Incubator (\$3.8 million), Sunnyside improvements (\$1.9 million), Huntington Drive improvements (\$1.1 million), and East Flagstaff Gateway improvements (\$2.1 million).

Governmental activities long-term liabilities decreased by 4.8% (\$4.2 million) due no new debt issues, only the retirement of principal for existing debt. Other liabilities decreased by 12.3% (\$3.1 million) due to accounts payable decreases as related to outstanding construction contracts at fiscal year end.

Overall business-type net assets increased by 3% (\$8.6 million) also due primarily to capital asset additions. Investment in capital assets, net of related debt increased by \$12.4 million. Of this, 12.1% (\$1.5 million) is from private development donations. The primary capital additions for business-type activities is the Wildcat Wastewater Treatment plant expansion at \$22.1 million.

Analysis of Change in Net Assets

The City's overall net assets increased by \$22 million during the current fiscal year. These increases are explained in the government and business-type activities discussion to follow.

Changes in Net Assets
For the Years Ended June 30, 2008 and 2007 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program Revenues:						
Charges for services	\$ 7,536	\$ 7,636	\$ 31,106	\$ 29,342	\$ 38,642	\$ 36,978
Operating grants and contributions	3,321	2,062	68	20	3,389	2,082
Capital grants and contributions	16,325	19,356	12,242	27,369	28,567	46,725
General Revenues:						
Property taxes	13,665	12,170	-	-	13,665	12,170
Sales taxes	33,129	32,335	-	-	33,129	32,335
State shared taxes	16,992	16,276	-	-	16,992	16,276
Investment earnings	3,904	4,109	964	1,547	4,868	5,656
Other	2,996	1,646	206	142	3,202	1,788
Total revenues	<u>97,868</u>	<u>95,590</u>	<u>44,586</u>	<u>58,420</u>	<u>142,454</u>	<u>154,010</u>
Expenses						
General government	11,271	9,035	-	-	11,271	9,035
Public safety	27,030	23,995	-	-	27,030	23,995
Public works	1,894	1,883	-	-	1,894	1,883
Economic and physical development	10,556	9,508	-	-	10,556	9,508
Culture and recreation	11,607	10,090	-	-	11,607	10,090
Highways and streets	15,516	14,564	-	-	15,516	14,564
Interest on long-term debt	2,917	3,090	-	-	2,917	3,090
Water and wastewater	-	-	23,430	19,945	23,430	19,945
Environmental	-	-	11,423	10,074	11,423	10,074
Airport	-	-	3,608	3,162	3,608	3,162
Stormwater	-	-	1,161	1,019	1,161	1,019
Total expenses	<u>80,791</u>	<u>72,165</u>	<u>39,622</u>	<u>34,200</u>	<u>120,413</u>	<u>106,365</u>
Increase in net assets before transfers	17,077	23,425	4,964	24,220	22,041	47,645
Transfers	(3,590)	(9,123)	3,590	9,123	-	-
Change in net assets	13,487	14,302	8,554	33,343	22,041	47,645
Net assets at beginning of year	254,905	240,603	286,074	252,731	540,979	493,334
Net assets at end of year	<u>\$ 268,392</u>	<u>\$ 254,905</u>	<u>\$ 294,628</u>	<u>\$ 286,074</u>	<u>\$ 563,020</u>	<u>\$ 540,979</u>

Governmental activities

Governmental activities increased the City's net assets by \$13.5 million, accounting for 61.2% of the total growth in the net assets of the City. The key factors for this increase are as follows:

- Combined operating grants, capital grants and contributions have decreased by 34.5% (\$16.9 million) due to decreased private development infrastructure contributions.
- Property tax increases are due to increases in assessed valuation.
- Sales tax revenues increased by 3.1% (\$1.5 million) for both local and state levels. While sales tax growth comparing year to year was positive, budgeted revenues were not met for state, city general sales tax, or the Bed, Board, and Booze sales taxes by 11.0%, 5.3%, and 11.5% respectively.
- Other revenues have increased due to the recorded gain on sale of capital assets.
- Expenses have increased primarily due to staffing increases and other compensation increases. The City authorized an additional 63 positions for the fiscal year. This included 26 positions for the Aquaplex, 10 positions in Public Safety, 5 positions in Community Development, and 4 positions for the Library. In addition, a 2% market adjustment was implemented in addition to merit increases. Police and fire overtime continues to escalate. Health insurance and dental insurance rates also increased.

Business-type activities

Business type activity had net asset growth of \$8.5 million, accounting for 38.8% of the total growth in the net assets to the City. The key factors for this increase include:

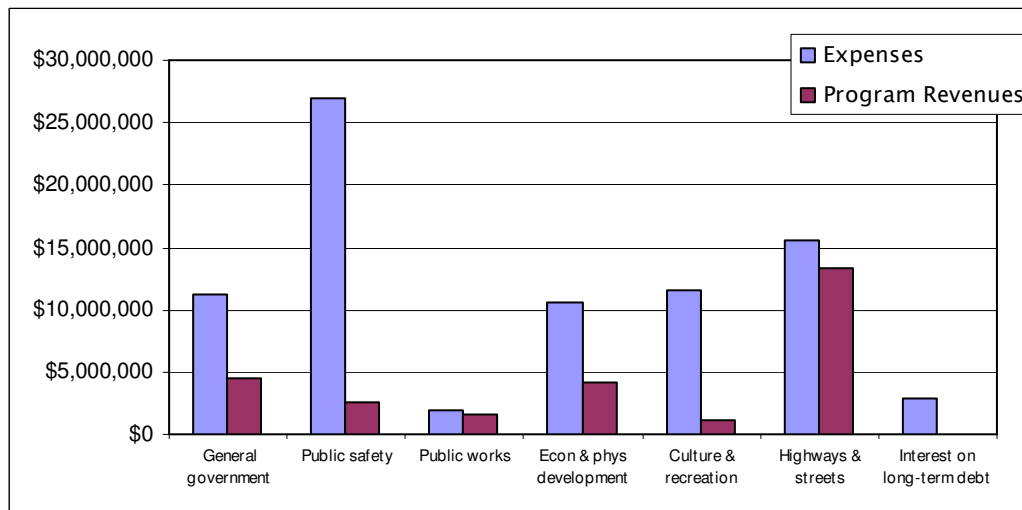
- Charges for service increased by 6% (\$1.8 million) due to rate increases in water, wastewater, environmental services, and stormwater.
- Capital grants and contributions decreased by 55.3% (\$15.1 million) due to significant grants received in the prior year for the runway extension work at the airport.
- Investment earnings are down 37.7% (\$0.6 million) due to decreased cash and investment balances spent toward capital improvements.
- Expenses have increased primarily due to exploratory costs incurred by the Water and Wastewater division for new wells (\$3.2 million). Additional expenses were incurred due to staffing increases and overall personnel cost increases. The City authorized an additional 1.5 positions for the fiscal year. A 2% market adjustment was given in addition to merit increases. Health insurance and dental insurance rates also increased.

The following two charts illustrate the City's governmental expenses and revenues by function and its revenues by source. As shown, Public safety is the largest function as measured by expense (33.5%), followed by Highways & streets (19.2%), Culture and recreation (14.4%), and General Government (13.9%).

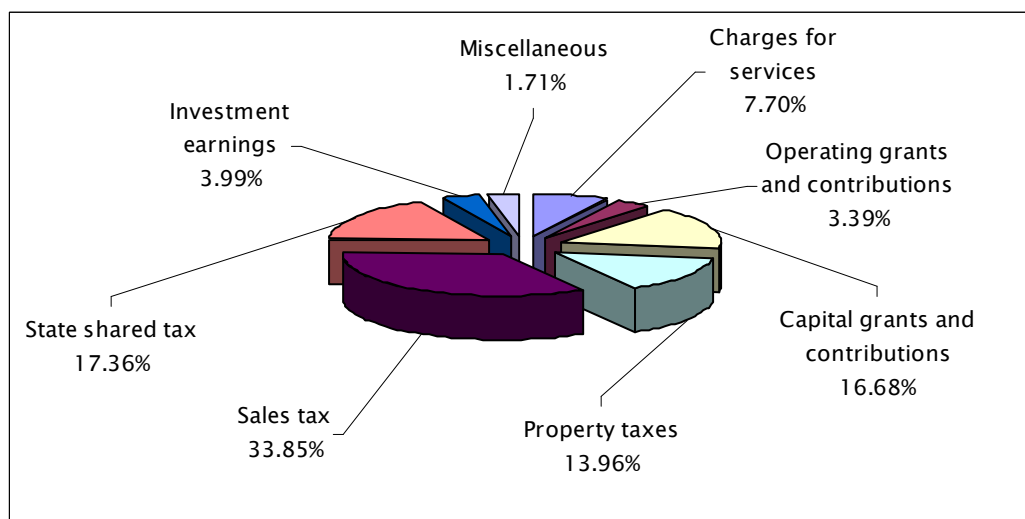
General revenues such as sales taxes, state shared taxes, and property taxes are not shown by program, but are effectively used to support program activities citywide. For governmental activities overall, without regard to program, sales taxes are the largest single source of funds (33.8%), followed by state shared taxes (17.4%) and capital grants and contributions (16.7%). In prior years, capital grants and contributions have ranked second and state shared revenue ranked third.

For the most part increases in expenses from the previous year compared to the fiscal year ended June 30, 2008 exceeded inflation and normal growth expectations as the City addressed a number of community and organizational needs through enhanced staffing and program growth. Sixty three full time equivalent positions were added to support new recreational facilities (26.2 FTE's), public safety (10.0 FTE's), community development (5.3 FTE's), the Library (4.0 FTE's), and a variety of other direct or support activities (17.5 FTE's).

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



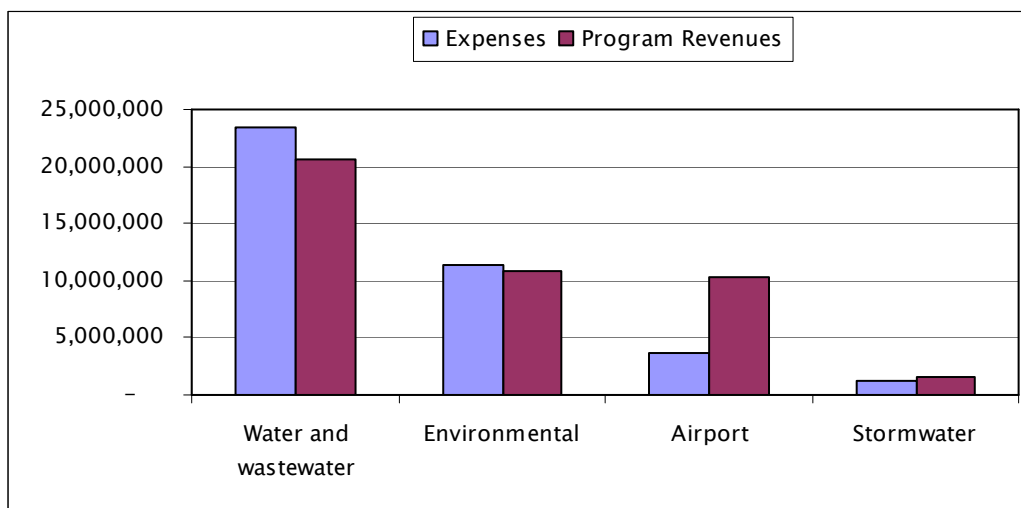
As shown in the following two charts, Water and Wastewater has expenses of \$23.4 million for the fiscal year, followed by Environmental Services with \$11.4 million, the Airport with \$3.6 million and Stormwater with \$1.2 million. For the fiscal year, program revenue exceeded expense for the Airport and Stormwater. Water and Wastewater and Environmental Services used resources to fund planned capital purchases and expansions. Water & Wastewater, Environmental Services, and Stormwater received the majority of their program revenues through charges for services (86.9%, 99.3%, and 75.0% respectively). The Airport fund receives the majority of support through Capital Grants and Contributions (88.0%). The Water and Wastewater fund receives 13.1% of support through grants and contributions. Charges for services provided the largest share of revenues (69.8%) for all of the business-type activities, followed by capital grants and contributions (27.4%). The proportionate share of revenue from charges for service (69.8%) and capital grants and contributions (27.4%) varied from the prior year split of 50.2% and 46.8% respectively. The large shift is primarily due to the decrease in private development donations from FY2007 of \$16.7 million to the current year of \$1.5 million.

Water and wastewater expenses increased by 17.4% (\$3.5 million) primarily for expenses related to exploratory work for new wells.

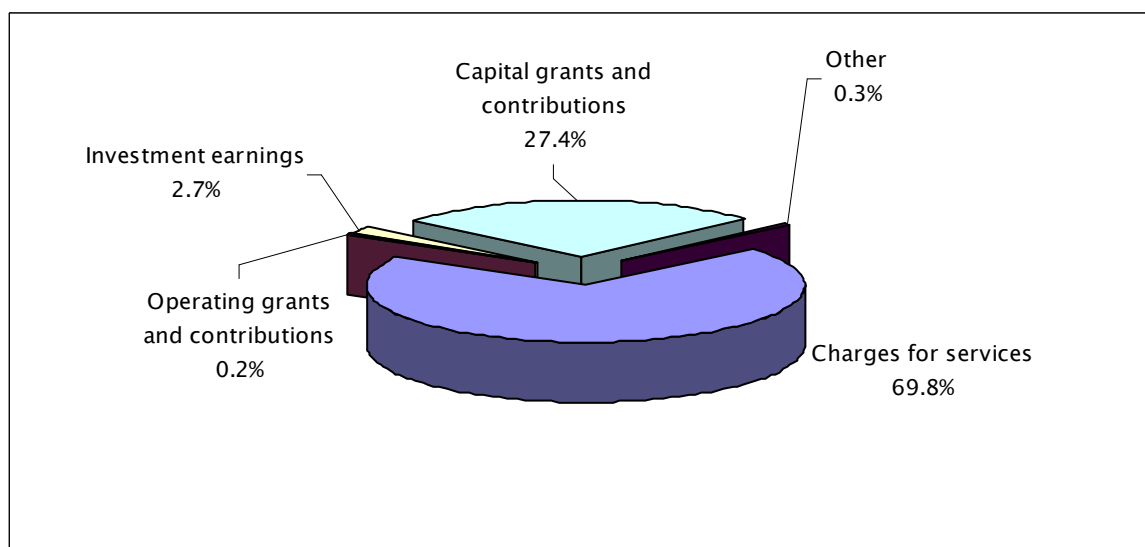
Environmental services, the Airport, and Stormwater experienced more normalized increases in line with normal personnel, contractual, and commodity cost increases.

Water and wastewater, environmental services, and stormwater all increased user fees realizing increased charge for service revenue at 3.6%, 9.9%, and 9.1% respectively.

Expenses and Program Revenues – Business Type Activities



Revenues by Source – Business-type activities



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General fund, Special Revenue funds, Capital Project funds, and Debt Service funds.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$64.2 million, a decrease of \$30.8 million in comparison with the prior year. Approximately \$43.2 million of the total ending fund balance constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to pay debt service (\$2.7 million), (2) for capital projects (\$17.8 million), (3) for inventory reserve (\$308,979), and (4) for perpetual care (\$105,162).

Revenues for governmental functions overall totaled \$91.2 million in the fiscal year ended June 30, 2008 which represents an increase of 2.4% or \$2.1 million from the fiscal year ended June 30, 2007. Grants and entitlements had the most significant increase of 11.3% (\$1.6 million) over the prior fiscal year due to the receipt of an economic development grant. Taxes which include city and state revenues grew by 4.7% (\$2 million). Three revenue categories experienced decreases including contributions (56.1%, \$1.7 million), miscellaneous (40.5%, \$0.6 million), and licenses and permits (25.6%, \$0.6 million). Contributions decreased due to funding related to development reimbursements for the Aspen Sawmill Special Improvement District. Miscellaneous revenues decreased due to declines in interest income and recovery of prior year expenses. Licenses and permits decreased due to a slowdown in the construction market.

Expenditures for governmental functions, totaling \$121.2 million, increased by 29.5% (\$27.6 million) from the fiscal year ended June 30, 2007. The expenditure increase was driven by capital outlay increases totaling \$46.5 million, a 76% (\$20.1 million) increase over the prior year. Major project improvements have been discussed in prior sections.

In the fiscal year ended June 30, 2008 expenditures for governmental functions exceeded revenues by approximately \$30 million. The higher level of expenditures is due to planned usage of fund balance for ongoing capital project expenditures of the City.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$27.5 million. As a measure of liquidity, it may be useful to compare both total unreserved, undesignated fund balance and total fund balance to total fund expenditures. The unreserved, undesignated fund balance and total fund balance represent 55.3% and 55.9%, respectively, of General Fund expenditures.

The fund balance in the City's General Fund decreased by \$3.4 million during the fiscal year as expenditure growth outpaced revenue growth at 10.7% and 1.5%, respectively. Overall, the General Fund's performance resulted in revenues in excess of expenditures in the fiscal year ended June 30, 2008 of \$1.2 million. This is a decrease of approximately \$4.0 million over the comparable figure from the prior year of \$5.2 million.

The Highway User Revenue Fund and the Capital Project Bond Construction Fund balances decreased by \$1.3 million, and \$28.1 million respectively, which represents a planned usage of fund balance for capital projects. The Transportation Fund and the BBB Fund balances increased slightly due to decreases in annual expenditures toward capital projects.

Proprietary funds

The City’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the fiscal year, the unrestricted net assets had positive balances for Water and Wastewater, Environmental Services, and Stormwater. The internal service fund, which is used to account for risk management and health insurance activities, had unrestricted net assets of \$5.3 million.

The total growth in net assets for the proprietary funds was \$8.5 million. The Environmental Services fund, Stormwater fund and the Airport fund had positive growth in their net assets for the fiscal year ended June 30, 2008. The increase was primarily driven by continued grant activity for the airport runway extension (\$9.1 million).

Fiduciary funds

The City no longer maintains any fiduciary funds. The total assets of the Firemen’s Pension Trust Fund were distributed April 2008 and the fund was closed. Additional information can be found in the footnotes, section V, B, Volunteer Firemen’s Relief and Pension Fund (page 80).

Budget Highlights

The City’s final budget differs from the original budget for certain divisions within the General fund as Council approved certain appropriation transfers from the General fund to the following funds:

General fund appropriation transfer:

\$ 650	Special assessment bond fund – administrative fees
<u>9,443</u>	Firemen’s pension fund – fund closure
<u>\$10,093</u>	

The General fund was under final budgeted total revenues by 4.2% (\$2.2) million primarily due to decreases in city and state shared sales tax collections and decreased building permitting and inspection revenues. Expenditures are under budget in every category due to not spending appropriation on several large budgeted projects, both capital and non-capital. These projects include but not limited to operating capital (\$0.9 million), sales tax software (\$1 million), other software and hardware items (\$1.1 million) and redevelopment (\$1.2 million). Both transfers in and transfers out are less than budgeted as many transfers are based on the actual year end expenditure, most significant of which is the budgeted transfer from the General Fund to the Stormwater Fund of \$7 million for the Rio de Flag flood control project of which only \$1.4 million actually transferred at year end.

Capital Assets and Debt Administration

Capital Assets

The City’s capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2008 amount to \$613.9 million. Capital assets include land, buildings, infrastructure, improvements, machinery and equipment, and construction in progress. The total increase in the City’s capital assets for the current year was 13.9% (\$74.9 million). The following table reflects the capital assets at the end of the fiscal year:

Capital Assets, Net of Depreciation
June 30, 2008 and 2007 (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 42,295	\$ 40,662	\$ 10,301	\$ 10,301	\$ 52,596	\$ 50,963
Buildings	27,822	25,765	47,930	49,164	75,752	74,929
Improvements	12,172	12,942	215,317	197,911	227,489	210,853
Machinery and equipment	12,185	11,689	8,707	6,119	20,892	17,808
Infrastructure	131,906	131,309	-	-	131,906	131,309
Construction in progress	56,732	21,256	48,536	31,861	105,268	53,117
Total	<u>\$ 283,112</u>	<u>\$ 243,623</u>	<u>\$ 330,791</u>	<u>\$ 295,356</u>	<u>\$ 613,903</u>	<u>\$ 538,979</u>

Major capital asset events during the current fiscal year included a 98.2% (\$52.2 million) increase in construction in process which includes Wildcat Wastewater Treatment Plant (\$22.1 million), Aquaplex (\$12.9 million), Aspen at Sawmill (\$12 million), Fire stations (\$3.9 million) and the Business Incubator (\$3.8 million).

For government-wide financial statement presentation, all depreciable capital assets are depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. Please refer to Note IV C on pages 59-60 of the Notes to the Financial Statements for further information regarding capital assets.

Long Term Debt

At the end of the current fiscal year, the City had total long-term debt outstanding of \$132.9 million. Of this amount, \$39.9 million is general obligation bonds backed by the full faith and credit of the City, \$19.3 million is improvement district bonds, \$11.5 million is revenue bonds, \$23 million is for the Municipal Facility Corporation, and \$39.2 million are outstanding leases or loans for the airport, water/wastewater, and city-wide energy conservation improvements.

Outstanding Debt
June 30, 2008 and 2007 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 29,350	\$ 31,230	\$ 10,515	\$ 13,310	\$ 39,865	\$ 44,540
Special assessment bonds	19,257	19,339	-	-	19,257	19,339
Revenue bonds	6,325	7,725	5,212	5,496	11,537	13,221
Other debt	23,000	24,315	-	-	23,000	24,315
Lease/ Loans	2,728	3,097	36,502	37,439	39,230	40,536
Total debt payable	<u>\$ 80,660</u>	<u>\$ 85,706</u>	<u>\$ 52,229</u>	<u>\$ 56,245</u>	<u>\$ 132,889</u>	<u>\$ 141,951</u>

During fiscal year 2008, the City's total bonded debt decreased by approximately \$9 million. The City issued no new debt for the fiscal year ended June 30, 2008.

The State constitution imposes certain debt limitations on the City of six percent (6%) and twenty percent (20%) of the outstanding assessed valuation of the City. The City's available debt margin at June 30, 2008 is \$52.4 million in the 6% category and \$136.2 million in the 20% capacity. Additional information on the debt limitations and capacities may be found in Schedule 15 in the statistical section of this report.

During the year, the City maintained the following bond ratings:

**City of Flagstaff Bonded Debt Ratings
As of June 30, 2008**

	<u>Moody's Investors Service</u>	<u>Standard & Poor's</u>
General Obligation	Aa3	AA-
Municipal Facilities Corporation	A1	A+

Additional information on the City's long-term debt can be found in Section IV F on pages 63-71 of the Notes to the Financial Statements.

Economic Factors and Next Year's Budget and Rates

The Fiscal Year 2008/2009 budget preparation was influenced by the following factors:

- Economic development through commercial development at Aspen Place at Sawmill, the Business Incubator, the Flagstaff Mall expansion, and the auto mall.
- Retail sales tax growth due to the growth cited above.
- The introduction of a second airline as the result of the runway extension
- The opening of the Aquaplex generating sizable new expenditures and moderate revenue increases.
- Other revenue resources that are anticipated to exhibit limited growth
- Providing affordable housing, especially for the local workforce
- Continued implementation of a Sustainability Program to evaluate strategies for energy efficiency for commercial and transportation modalities and to assess waste reduction and recycling efforts
- The cost of providing retirement and health benefits continue to escalate beyond available budgeted resources. The ability to manage the entire employee compensation package.
- The addition of positions that meet the current and future needs as defined by Council
- Maintenance of level expenditures while minimizing the impact to health and/or safety services
- Assessment and funding of long range capital needs and their associated operational impacts
- Assessment of facility needs
- Assessment of future water resource needs
- Initial indications of an economic downturn at both the local and state level.

Requests for Information

The financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact:

City of Flagstaff
Management Services Department
Finance and Budget Division
211 W. Aspen
Flagstaff, AZ 86001

Main and TDD (928) 774-5281
Arizona Relay 7-1-1

CITY OF FLAGSTAFF, ARIZONA
Statement of Net Assets
June 30, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 10,707,437	\$ 4,350,001	\$ 15,057,438
Cash with fiscal agents	6,524,244	3,084,073	9,608,317
Investments	31,742,148	27,000	31,769,148
Accounts receivables, net	7,315,082	16,786,791	24,101,873
Interest receivable	398,987	79,643	478,630
Intergovernmental receivable	4,599,511	821,116	5,420,627
Bond proceeds receivable	127,674	1,588,066	1,715,740
Special assessments receivable	1,007	-	1,007
Internal balance	3,652,932	(3,652,932)	-
Inventory	405,389	304,574	709,963
Deferred bond issuance costs, net	541,407	310,666	852,073
Other assets	-	13,640	13,640
Restricted cash and investments	26,118,147	10,131,609	36,249,756
Restricted interest receivable	-	31,270	31,270
Capital assets:			
Non-depreciable	99,027,411	58,837,460	157,864,871
Depreciable, net	184,085,057	271,953,447	456,038,504
Total assets	375,246,433	364,666,424	739,912,857
LIABILITIES			
Accounts payable	8,312,127	2,174,313	10,486,440
Accrued payroll	2,012,001	440,213	2,452,214
Interest payable	1,930,130	640,234	2,570,364
Unearned revenue	2,975,140	268,320	3,243,460
Deposits payable	1,498,069	483,968	1,982,037
Matured bonds and lease payable	4,595,000	3,727,813	8,322,813
Unamortized bond premium	1,004,316	60,943	1,065,259
Noncurrent liabilities:			
Due within one year:			
Compensated absences	1,510,094	320,192	1,830,286
Special assessment bonds	88,000	-	88,000
Bonds, notes and leases payable	4,921,990	5,197,586	10,119,576
Due in more than one year:			
Compensated absences	1,981,048	328,056	2,309,104
Landfill closure and postclosure care costs	-	9,365,490	9,365,490
Arbitrage rebate	376,125	-	376,125
Special assessment bonds	19,169,000	-	19,169,000
Bonds, notes and leases payable	56,480,942	47,031,782	103,512,724
Total liabilities	106,853,982	70,038,910	176,892,892
NET ASSETS			
Invested in capital assets, net of related debt	184,032,992	276,783,163	460,816,155
Restricted for:			
Capital projects	17,939,509	1,593,915	19,533,424
Debt service	2,275,241	-	2,275,241
Perpetual care:			
Expendable	9,916	-	9,916
Nonexpendable	105,162	-	105,162
Unrestricted	64,029,631	16,250,436	80,280,067
Total net assets	\$ 268,392,451	\$ 294,627,514	\$ 563,019,965

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA

Statement of Activities

Year Ended June 30, 2008

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 11,271,031	\$ 3,746,890	\$ 787,573	\$ -
Public safety	27,030,331	1,227,979	822,406	540,899
Public Works	1,894,089	1,483,275	-	58,190
Economic and physical development	10,556,175	315,462	1,484,692	2,346,226
Culture and recreation	11,607,116	762,410	225,926	103,123
Highways and streets	15,515,643	-	-	13,276,490
Interest on long-term debt	2,916,380	-	-	-
Total governmental activities	80,790,765	7,536,016	3,320,597	16,324,928
Business-type activities:				
Water and wastewater	23,430,497	17,947,605	3,000	2,733,445
Environmental	11,423,164	10,813,177	28,841	44,179
Airport	3,608,322	1,207,831	35,810	9,085,095
Stormwater	1,160,604	1,137,402	-	379,848
Total business-type activities	39,622,587	31,106,015	67,651	12,242,567
Total primary government	\$ 120,413,352	\$ 38,642,031	\$ 3,388,248	\$ 28,567,495

General revenues:

Property taxes, levied for general purposes

Property tax, levied for debt service

Property tax, levied for special district

Sales taxes

State shared sales taxes – unrestricted

Investment earnings

Miscellaneous

Gain on sale of capital assets

Contributions to permanent fund

Transfers in (out)

Total general revenues, contributions and transfers

Change in net assets

Net assets – beginning

Net assets – ending

The notes to the financial statements are an integral part of this statement

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (6,736,568)	\$ -	\$ (6,736,568)
(24,439,047)	-	(24,439,047)
(352,624)	-	(352,624)
(6,409,795)	-	(6,409,795)
(10,515,657)	-	(10,515,657)
(2,239,153)	-	(2,239,153)
(2,916,380)	-	(2,916,380)
<u>(53,609,224)</u>	<u>-</u>	<u>(53,609,224)</u>
-	(2,746,447)	(2,746,447)
-	(536,967)	(536,967)
-	6,720,414	6,720,414
-	356,646	356,646
-	3,793,646	3,793,646
<u>\$ (53,609,224)</u>	<u>\$ 3,793,646</u>	<u>\$ (49,815,578)</u>
4,638,772	-	4,638,772
6,261,101	-	6,261,101
2,764,918	-	2,764,918
33,129,731	-	33,129,731
16,992,017	-	16,992,017
3,903,839	964,237	4,868,076
819,325	127,423	946,748
2,160,339	78,248	2,238,587
16,200	-	16,200
(3,590,153)	3,590,153	-
<u>67,096,089</u>	<u>4,760,061</u>	<u>71,856,150</u>
<u>13,486,865</u>	<u>8,553,707</u>	<u>22,040,572</u>
<u>254,905,586</u>	<u>286,073,807</u>	<u>540,979,393</u>
<u>\$ 268,392,451</u>	<u>\$ 294,627,514</u>	<u>\$ 563,019,965</u>

CITY OF FLAGSTAFF, ARIZONA

Balance Sheet
Governmental Funds
June 30, 2008

	General Fund	Highway User Revenue Fund	Transportation Fund
ASSETS			
Cash and investments	\$ 21,136,242	\$ 6,411,510	\$ 62,974
Cash with fiscal agents	386,199	1,605,693	1,476,050
Receivables, net	6,609,356	619,009	2,214,663
Interfund receivable	5,500,000	-	-
Inventory	308,979	-	-
Restricted cash and investments	-	-	339
Total assets	<u>\$ 33,940,776</u>	<u>\$ 8,636,212</u>	<u>\$ 3,754,026</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 1,422,536	\$ 1,302,689	\$ 36,671
Accrued payroll and compensated absences	1,760,569	84,815	-
Current bonds payable	310,000	1,400,000	1,005,000
Interest payable	76,199	205,693	471,050
Interfund payable	-	-	200,000
Deferred revenue	220,023	-	-
Unearned revenue	851,548	-	-
Guaranty and other deposits	1,498,069	-	-
Total liabilities	<u>6,138,944</u>	<u>2,993,197</u>	<u>1,712,721</u>
Fund balances:			
Reserved for:			
Debt service	-	-	-
Capital projects	-	-	-
Inventory	308,979	-	-
Perpetual care	-	-	-
Unreserved, designated, reported in:			
Special revenue funds	-	-	-
Unreserved, undesignated, reported in:			
General fund	27,492,853	-	-
Capital projects funds	-	-	-
Special revenue funds	-	5,643,015	2,041,305
Permanent fund	-	-	-
Total fund balances	<u>27,801,832</u>	<u>5,643,015</u>	<u>2,041,305</u>
Total liabilities and fund balances	<u>\$ 33,940,776</u>	<u>\$ 8,636,212</u>	<u>\$ 3,754,026</u>

The notes to the financial statements are an integral part of this statement

BBB Fund	Capital Projects Bond Construction	Other Governmental Funds	Total Governmental Funds
\$ 5,093,544	\$ 335,169	\$ 7,165,188	\$ 40,204,627
-	476,875	2,579,427	6,524,244
623,036	444,675	1,489,941	12,000,680
-	-	-	5,500,000
96,410	-	-	405,389
-	26,012,646	105,162	26,118,147
<u>\$ 5,812,990</u>	<u>\$ 27,269,365</u>	<u>\$ 11,339,718</u>	<u>\$ 90,753,087</u>
\$ 144,559	\$ 4,764,881	\$ 203,574	\$ 7,874,910
51,743	-	114,874	2,012,001
-	-	1,880,000	4,595,000
-	476,875	700,313	1,930,130
-	5,000,000	300,000	5,500,000
164	-	2,113,536	2,333,723
-	-	-	851,548
-	-	-	1,498,069
<u>196,466</u>	<u>10,241,756</u>	<u>5,312,297</u>	<u>26,595,381</u>
-	-	2,715,064	2,715,064
-	17,791,353	-	17,791,353
-	-	-	308,979
-	-	105,162	105,162
-	-	592,679	592,679
-	-	-	27,492,853
-	(763,744)	-	(763,744)
5,616,524	-	2,604,600	15,905,444
-	-	9,916	9,916
<u>5,616,524</u>	<u>17,027,609</u>	<u>6,027,421</u>	<u>64,157,706</u>
<u>\$ 5,812,990</u>	<u>\$ 27,269,365</u>	<u>\$ 11,339,718</u>	<u>\$ 90,753,087</u>

CITY OF FLAGSTAFF
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
JUNE 30, 2008

Fund balances – total governmental funds balance sheet		\$ 64,157,706
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Amounts reported for governmental activities in the statements of net assets are different because (also see note 2):

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental capital assets	411,429,288	
Less: accumulated depreciation	(127,630,900)	
Transfer of capital assets to business-type activities	<u>(685,920)</u>	
		283,112,468

Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Deferred bond issue costs	541,407	
Fines and forfeitures	<u>323,365</u>	
		864,772

Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.

Governmental bonds payable	80,659,932	
Bond premium	1,004,316	
Arbitrage rebate	376,125	
Compensated absences	<u>3,491,142</u>	
		(85,531,515)

Certain revenues are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

Special assessments	1,007	
Property tax	<u>209,124</u>	
		210,131

The internal service fund is used by management to charge the cost of self insurance programs to individual funds.

The assets and liabilities of the internal service funds that are reported with governmental activities.		<u>5,578,889</u>
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Net assets of governmental activities – statement of net assets		<u>\$ 268,392,451</u>
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The notes to the financial statements are an integral part of this statement



CITY OF FLAGSTAFF, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2008

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Transportation Fund</u>
REVENUES:			
Taxes	\$ 22,954,382	\$ -	\$ 9,604,726
Intergovernmental	17,660,170	-	-
Grants and entitlements	1,543,442	7,957,106	-
Charges for services	2,402,454	-	-
Special assessments	-	-	-
Licenses and permits	1,815,062	-	-
Fines and forfeitures	1,336,146	-	-
Rents	1,483,275	-	-
Investment earnings	997,368	190,900	305,789
Contributions	-	-	-
Miscellaneous	721,127	58,727	-
Total revenues	<u>50,913,426</u>	<u>8,206,733</u>	<u>9,910,515</u>
EXPENDITURES:			
Current:			
General governmental	9,221,094	-	-
Public safety	25,694,391	-	-
Public works	1,617,311	-	-
Economic and physical development	5,257,467	561,203	-
Culture and recreation	5,096,046	-	-
Highways and streets	-	5,280,461	3,218,807
Debt service:			
Principal retirement	679,398	1,400,000	1,005,000
Interest and other charges	258,884	413,965	944,646
Capital outlay	1,925,996	9,739,561	121,337
Total expenditures	<u>49,750,587</u>	<u>17,395,190</u>	<u>5,289,790</u>
Excess (deficiency) of revenues over expenditures	<u>1,162,839</u>	<u>(9,188,457)</u>	<u>4,620,725</u>
OTHER FINANCING SOURCES (USES):			
Sale of capital assets	55,172	2,115,183	-
Transfers in	3,575,847	5,892,119	-
Transfers out	(8,212,498)	(85,401)	(4,094,899)
Total other financing sources (uses)	<u>(4,581,479)</u>	<u>7,921,901</u>	<u>(4,094,899)</u>
Net change in fund balances	<u>(3,418,640)</u>	<u>(1,266,556)</u>	<u>525,826</u>
Fund balances, beginning of year, as restated (see note II.C.)	<u>31,220,472</u>	<u>6,909,571</u>	<u>1,515,479</u>
Fund balances, end of year	<u>\$ 27,801,832</u>	<u>\$ 5,643,015</u>	<u>\$ 2,041,305</u>

The notes to the financial statements are an integral part of this statement

BBB Fund	Capital Projects Bond Construction	Other Governmental Funds	Total Governmental Funds
\$ 5,186,594	\$ -	\$ 6,218,615	\$ 43,964,317
-	-	2,764,918	20,425,088
11,355	2,343,890	1,700,887	13,556,680
71,100	-	230,779	2,704,333
-	-	2,449	2,449
-	-	-	1,815,062
-	-	-	1,336,146
13,583	-	-	1,496,858
155,855	1,819,612	261,592	3,731,116
10,000	1,282,738	16,200	1,308,938
5,535	-	33,936	819,325
<u>5,454,022</u>	<u>5,446,240</u>	<u>11,229,376</u>	<u>91,160,312</u>
-	982,889	25,831	10,229,814
-	1,783	-	25,696,174
-	-	-	1,617,311
2,563,560	-	1,953,734	10,335,964
578,296	2,414	4,590,893	10,267,649
6,454	-	-	8,505,722
-	-	1,962,000	5,046,398
-	-	1,403,432	3,020,927
<u>442,747</u>	<u>33,600,323</u>	<u>635,585</u>	<u>46,465,549</u>
<u>3,591,057</u>	<u>34,587,409</u>	<u>10,571,475</u>	<u>121,185,508</u>
<u>1,862,965</u>	<u>(29,141,169)</u>	<u>657,901</u>	<u>(30,025,196)</u>
65	-	6,388	2,176,808
1,437,289	986,635	5,289,686	17,181,576
(2,306,225)	-	(5,386,786)	(20,085,809)
<u>(868,871)</u>	<u>986,635</u>	<u>(90,712)</u>	<u>(727,425)</u>
<u>994,094</u>	<u>(28,154,534)</u>	<u>567,189</u>	<u>(30,752,621)</u>
<u>4,622,430</u>	<u>45,182,143</u>	<u>5,460,232</u>	<u>94,910,327</u>
<u>\$ 5,616,524</u>	<u>\$ 17,027,609</u>	<u>\$ 6,027,421</u>	<u>\$ 64,157,706</u>

CITY OF FLAGSTAFF
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Net change in fund balances – total governmental funds \$ (30,752,621)

Amounts reported for governmental activities in the statements of activities are different because:

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Expenditures for capital assets	46,465,549	
Less current year depreciation	<u>(10,402,014)</u>	36,063,535

Some items reported in the governmental funds are sources and uses of current financial resources and therefore are not reported as revenues or expenses in the statement of activities. These items include:

Donated capital	4,127,954	
Compensated absences	(557,943)	
Principal payments on debt	5,046,398	
Arbitrage rebate	(271,395)	
Bond premium	<u>104,547</u>	8,449,561

Bond issuance costs are recognized as debt service expenditures in the governmental funds, however these costs are capitalized on the statement and activities and amortized in the statement of activities.

Issuance costs	<u>(57,156)</u>	(57,156)
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The sale of capital assets in the governmental funds reflect proceeds. However, in the statement of activities the sale of capital assets reflect the net gain (loss).

Sale of capital assets	(16,469)	
Transfer of capital assets to business-type activities	<u>(685,920)</u>	(702,389)

(continued)

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Certain revenues in the governmental funds that provide current financial resources are not included in the statement of activities because they were recognized in a prior period. However, other revenues that are deferred in the governmental funds because they do not provide current financial resources due to unavailability are recognized in the statement of activities.

Property tax	65,287	
Fines and forfeitures	<u>181,168</u>	246,455

Internal service funds are used by management to charge the costs of certain activities, such as the City's self-insurance program to individual funds. The following activities of the internal service fund is reported with governmental activities.

Operating loss	66,757	
Investment income	<u>172,723</u>	239,480

Change in net assets of governmental activities – statement of activities		<u><u>\$ 13,486,865</u></u>
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The notes to the financial statements are an integral part of this statement

(concluded)

CITY OF FLAGSTAFF, ARIZONA
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2008

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Taxes	\$ 23,977,434	\$ 23,977,434	\$ 22,954,382	\$ (1,023,052)
Intergovernmental	18,334,377	18,334,377	17,660,170	(674,207)
Grants and entitlements	2,127,775	2,127,775	1,543,442	(584,333)
Charges for services	2,735,223	2,735,223	2,402,454	(332,769)
Licenses and permits	2,384,888	2,384,888	1,815,062	(569,826)
Fines and forfeitures	1,152,871	1,152,871	1,336,146	183,275
Rents	1,399,390	1,399,390	1,483,275	83,885
Investment earnings	973,750	973,750	997,368	23,618
Miscellaneous	62,504	62,504	721,127	658,623
Total revenues	<u>53,148,212</u>	<u>53,148,212</u>	<u>50,913,426</u>	<u>(2,234,786)</u>
EXPENDITURES:				
Current:				
General administration	6,439,989	6,439,989	6,062,996	376,993
Management Services	4,561,875	4,561,875	4,264,902	296,973
Community development	5,283,822	5,283,822	5,142,847	140,975
Fire	11,136,252	11,136,252	10,203,346	932,906
Police	16,601,314	16,601,314	16,264,309	337,005
Public works	9,501,560	9,501,560	8,589,416	912,144
Utilities	21,441	21,441	21,441	-
Non-departmental	5,181,564	5,181,564	(769,697)	5,951,261
Contingency	<u>500,000</u>	<u>489,907</u>	<u>(28,973)</u>	<u>518,880</u>
Total expenditures	<u>59,227,817</u>	<u>59,217,724</u>	<u>49,750,587</u>	<u>9,467,137</u>
Excess (deficiency) of revenues over expenditures	<u>(6,079,605)</u>	<u>(6,069,512)</u>	<u>1,162,839</u>	<u>7,232,351</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	6,087	6,087	55,172	49,085
Transfers in	3,825,847	3,825,847	3,575,847	(250,000)
Transfers out	<u>(13,935,810)</u>	<u>(13,935,810)</u>	<u>(8,212,498)</u>	<u>5,723,312</u>
Total other financing sources (uses)	<u>(10,103,876)</u>	<u>(10,103,876)</u>	<u>(4,581,479)</u>	<u>5,522,397</u>
Net change in fund balances	<u>(16,183,481)</u>	<u>(16,173,388)</u>	<u>(3,418,640)</u>	<u>12,754,748</u>
Budgetary fund balances, beginning of year	<u>25,968,653</u>	<u>25,968,653</u>	<u>25,968,653</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 9,785,172</u>	<u>\$ 9,795,265</u>	<u>\$ 22,550,013</u>	<u>\$ 12,754,748</u>
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ (3,418,640)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			(654,911)	
Adjusted net change in fund balance – GAAP basis			<u>\$ (4,073,551)</u>	

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Highway User Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2008

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Grants and entitlements	\$ 8,383,461	\$ 8,383,461	\$ 7,957,106	\$ (426,355)
Investment earnings	316,000	316,000	190,900	(125,100)
Miscellaneous	–	–	58,727	58,727
Total revenues	<u>8,699,461</u>	<u>8,699,461</u>	<u>8,206,733</u>	<u>(492,728)</u>
EXPENDITURES:				
Current:				
General administration	238,262	238,262	238,262	–
Management Services	259,130	259,130	259,130	–
Community development	3,296,299	3,296,299	1,189,640	2,106,659
Public works	26,914,497	26,914,497	15,433,912	11,480,585
Utilities	3,620	3,620	3,620	–
Non-departmental	270,626	270,626	270,626	–
Contingency	100,000	100,000	–	100,000
Total expenditures	<u>31,082,434</u>	<u>31,082,434</u>	<u>17,395,190</u>	<u>13,687,244</u>
Excess (deficiency) of revenues over expenditures	<u>(22,382,973)</u>	<u>(22,382,973)</u>	<u>(9,188,457)</u>	<u>13,194,516</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	–	–	2,115,183	2,115,183
Transfers in	11,225,334	11,225,334	5,892,119	(5,333,215)
Transfers out	(85,401)	(85,401)	(85,401)	–
Total other financing sources (uses)	<u>11,139,933</u>	<u>11,139,933</u>	<u>7,921,901</u>	<u>(3,218,032)</u>
Net change in fund balances	<u>(11,243,040)</u>	<u>(11,243,040)</u>	<u>(1,266,556)</u>	<u>9,976,484</u>
Budgetary fund balances, beginning of year	<u>16,080,949</u>	<u>16,080,949</u>	<u>16,080,949</u>	<u>–</u>
Budgetary fund balances, end of year	<u>\$ 4,837,909</u>	<u>\$ 4,837,909</u>	<u>\$ 14,814,393</u>	<u>\$ 9,976,484</u>
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ (1,266,556)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			(58,727)	
Adjusted net change in fund balance – GAAP basis			<u>\$ (1,325,283)</u>	

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Transportation Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2008

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Taxes	\$ 10,088,031	\$ 10,088,031	\$ 9,604,726	\$ (483,305)
Investment earnings	175,000	175,000	305,789	130,789
Total revenues	10,263,031	10,263,031	9,910,515	(352,516)
EXPENDITURES:				
Current:				
Community development	2,381,358	2,381,358	2,070,983	310,375
Public works	-	-	8,725	(8,725)
Non-departmental	3,641,410	3,641,410	3,210,082	431,328
Total expenditures	6,022,768	6,022,768	5,289,790	732,978
Excess (deficiency) of revenues over expenditures	4,240,263	4,240,263	4,620,725	380,462
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	5,000,000	5,000,000	-	(5,000,000)
Transfers out	(9,315,984)	(9,315,984)	(4,094,899)	5,221,085
Total other financing sources (uses)	(4,315,984)	(4,315,984)	(4,094,899)	221,085
Net change in fund balances	(75,721)	(75,721)	525,826	601,547
Budgetary fund balances, beginning of year	904,578	904,578	904,578	-
Budgetary fund balances, end of year	\$ 828,857	\$ 828,857	\$ 1,430,404	\$ 601,547
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ 525,826	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			25,618	
Adjusted net change in fund balance – GAAP basis			\$ 551,444	

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
BBB Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2008

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Taxes	\$ 5,450,366	\$ 5,450,366	\$ 5,186,594	\$ (263,772)
Grants and entitlements	1,226,377	1,226,377	11,355	(1,215,022)
Charges for services	70,000	70,000	71,100	1,100
Rents	–	–	13,583	13,583
Investment earnings	90,428	90,428	155,855	65,427
Contributions	–	–	10,000	10,000
Miscellaneous	17,030	17,030	5,535	(11,495)
Total revenues	<u>6,854,201</u>	<u>6,854,201</u>	<u>5,454,022</u>	<u>(1,400,179)</u>
EXPENDITURES:				
Current:				
General administration	2,638,756	2,638,756	2,274,140	364,616
Community development	6,430,718	6,430,718	689,138	5,741,580
Public works	–	–	153	(153)
Non-departmental	682,035	682,035	627,626	54,409
Contingency	95,000	95,000	–	95,000
Total expenditures	<u>9,846,509</u>	<u>9,846,509</u>	<u>3,591,057</u>	<u>6,255,452</u>
Excess (deficiency) of revenues over expenditures	<u>(2,992,308)</u>	<u>(2,992,308)</u>	<u>1,862,965</u>	<u>4,855,273</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	–	–	65	65
Transfers in	1,418,503	1,418,503	1,437,289	18,786
Transfers out	(2,287,439)	(2,287,439)	(2,306,225)	(18,786)
Total other financing sources (uses)	<u>(868,936)</u>	<u>(868,936)</u>	<u>(868,871)</u>	<u>65</u>
Net change in fund balances	<u>(3,861,244)</u>	<u>(3,861,244)</u>	<u>994,094</u>	<u>4,855,338</u>
Budgetary fund balances, beginning of year	<u>4,138,707</u>	<u>4,138,707</u>	<u>4,138,707</u>	<u>–</u>
Budgetary fund balances, end of year	<u>\$ 277,463</u>	<u>\$ 277,463</u>	<u>\$ 5,132,801</u>	<u>\$ 4,855,338</u>
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ 994,094	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			(81,313)	
The City budgets for certain other expenditures on the cash basis, rather than on the modified accrual basis			–	
Adjusted net change in fund balance – GAAP basis			<u>\$ 912,781</u>	

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA

Statement of Net Assets

Proprietary Funds

June 30, 2008

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
ASSETS		
Current assets:		
Cash and investments	\$ 43,615	\$ 3,716,182
Cash with fiscal agents	2,738,075	–
Receivables, net	15,644,277	1,027,229
Interfund receivables	–	–
Inventory	304,574	–
Total current assets	18,730,541	4,743,411
Noncurrent assets:		
Restricted cash and investments	2,010,851	8,120,758
Restricted receivables	1,601,706	31,270
Deferred bond issuance costs, net	310,666	–
Capital assets, non-depreciable	46,853,406	1,849,428
Capital assets, depreciable, net	200,897,234	8,397,421
Total non-current assets	251,673,863	18,398,877
Total assets	270,404,404	23,142,288
LIABILITIES		
Current liabilities:		
Accounts payable	1,038,719	156,368
Accrued payroll and compensated absences	434,545	261,303
Unearned revenue	141,820	–
Unamortized bond premium	58,514	–
Interfund payable	3,300,000	–
Bonds and notes payable	8,738,971	–
Deposits payable	416,881	29,687
Total current liabilities	14,129,450	447,358
Noncurrent liabilities:		
Compensated absences	199,787	111,258
Landfill closure and postclosure care costs	–	9,365,490
Capital lease payable	1,577,280	–
Bonds and notes payable	42,737,323	–
Total noncurrent liabilities	44,514,390	9,476,748
Total liabilities	58,643,840	9,924,106
NET ASSETS		
Invested in capital assets, net of related debt	196,943,168	10,246,849
Restricted: Capital projects	1,593,915	–
Unrestricted	13,223,481	2,971,333
Total net assets	\$ 211,760,564	\$ 13,218,182

The notes to the financial statements are an integral part of this statement

Business-type Activities – Enterprise Funds			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ 175,981	\$ 441,223	\$ 4,377,001	\$ 2,244,958
345,998	–	3,084,073	–
900,269	115,775	17,687,550	118,216
–	–	–	3,394,897
–	–	304,574	–
<u>1,422,248</u>	<u>556,998</u>	<u>25,453,198</u>	<u>5,758,071</u>
–	–	10,131,609	–
–	–	1,632,976	–
–	–	310,666	–
149,049	9,985,577	58,837,460	–
<u>47,776,903</u>	<u>14,881,889</u>	<u>271,953,447</u>	<u>–</u>
<u>47,925,952</u>	<u>24,867,466</u>	<u>342,866,158</u>	<u>–</u>
<u>49,348,200</u>	<u>25,424,464</u>	<u>368,319,356</u>	<u>5,758,071</u>
897,108	82,118	2,174,313	437,217
33,220	31,337	760,405	–
126,500	–	268,320	–
2,429	–	60,943	–
94,897	–	3,394,897	–
826,662	–	9,565,633	–
37,400	–	483,968	–
<u>2,018,216</u>	<u>113,455</u>	<u>16,708,479</u>	<u>437,217</u>
9,428	7,583	328,056	–
–	–	9,365,490	–
2,382,543	–	3,959,823	–
334,636	–	43,071,959	–
<u>2,726,607</u>	<u>7,583</u>	<u>56,725,328</u>	<u>–</u>
<u>4,744,823</u>	<u>121,038</u>	<u>73,433,807</u>	<u>437,217</u>
44,725,680	24,867,466	276,783,163	–
–	–	1,593,915	–
(122,303)	435,960	16,508,471	5,320,854
<u>\$ 44,603,377</u>	<u>\$ 25,303,426</u>	<u>\$ 294,885,549</u>	<u>\$ 5,320,854</u>

Some amounts reported for *business-type activities* in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities

(258,035)
\$ 294,627,514

CITY OF FLAGSTAFF, ARIZONA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2008

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
OPERATING REVENUES:		
Charges for services	\$ 17,938,268	\$ 10,718,329
Miscellaneous	9,337	94,848
Total operating revenues	<u>17,947,605</u>	<u>10,813,177</u>
OPERATING EXPENSES:		
Personal services	5,514,134	4,093,473
Contractual services, materials and supplies	10,715,682	6,607,027
Insurance claims and expenses	-	-
Depreciation and amortization	5,958,169	732,566
Total operating expenses	<u>22,187,985</u>	<u>11,433,066</u>
Operating income (loss)	<u>(4,240,380)</u>	<u>(619,889)</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest and investment income	432,746	504,144
Grants and entitlements	20,246	73,020
Gain on sale of capital asset	56,502	21,746
Passenger facility charges	-	-
Interest expense	(1,261,716)	-
Total non-operating revenues (expenses)	<u>(752,222)</u>	<u>598,910</u>
Income (loss) before capital contributions and transfers	<u>(4,992,602)</u>	<u>(20,979)</u>
Capital contributions	2,874,725	-
Transfers in	2,341,359	140,000
Transfers out	(1,972,064)	(19,488)
Change in net assets	<u>(1,748,582)</u>	<u>99,533</u>
Total net assets, beginning of year	<u>213,509,146</u>	<u>13,118,649</u>
Total net assets, end of year	<u><u>\$ 211,760,564</u></u>	<u><u>\$ 13,218,182</u></u>

The notes to the financial statements are an integral part of this statement

Business-type Activities – Enterprise Funds			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ 1,207,543	\$ 1,137,402	\$ 31,001,542	\$ 8,080,429
288	–	104,473	321,846
1,207,831	1,137,402	31,106,015	8,402,275
632,017	536,507	10,776,131	–
615,611	313,214	18,251,534	–
–	–	–	8,302,460
2,167,812	311,881	9,170,428	–
3,415,440	1,161,602	38,198,093	8,302,460
(2,207,609)	(24,200)	(7,081,863)	99,815
25,451	1,896	964,237	172,723
9,120,905	–	9,214,171	–
–	–	78,248	–
127,423	–	127,423	–
(195,836)	–	(1,457,552)	–
9,077,943	1,896	8,926,527	172,723
6,870,334	(22,304)	1,834,449	272,538
–	221,322	3,096,047	–
1,863,172	1,400,538	5,745,069	–
(33,567)	(129,797)	(2,154,916)	–
8,699,939	1,469,759	8,520,649	272,538
35,903,438	23,833,667		5,048,316
\$ 44,603,377	\$ 25,303,426		\$ 5,320,854

Some amounts reported for business-type activities on the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities

	33,058
Change in net assets of business-type activities	\$ 8,553,707

City of Flagstaff, Arizona
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2008

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
Cash flows from operating activities:		
Receipts from customers	\$ 4,432,576	\$ 10,553,894
Interfund services provided	340,836	55,759
Other receipts	9,337	94,848
Payments to suppliers	(13,690,125)	(5,992,128)
Interfund services used	(40,947)	(2,667)
Payments to employees	(5,450,689)	(3,975,439)
Net cash provided (used) by operating activities	(14,399,012)	734,267
Cash flows from noncapital financing activities:		
Transfer from other funds	2,341,359	140,000
Transfer to other funds	(1,972,064)	(19,488)
Interfund loans paid	-	-
Interfund loans received	10,100,000	-
Net cash provided (used) by noncapital financing activities	10,469,295	120,512
Cash flows from capital and related financing activities:		
Receipts from grantors	63,646	121,587
Capital Contributions	1,344,765	-
Acquisition and construction of capital assets	(28,028,704)	(2,911,529)
Principal payments on capital debt	(4,102,933)	-
Interest paid on capital debt	(1,224,570)	-
Proceeds from capital debt	21,498,294	-
Proceeds from sales of capital assets	56,502	21,746
Net cash provided (used) by capital and related financing activities	(10,393,000)	(2,768,196)
Cash flows from investing activities:		
Interest received on investments	588,826	557,652
Net cash provided (used) by investing activities	588,826	557,652
Net increase (decrease) in cash and cash equivalents	(13,733,891)	(1,355,765)
Cash and cash equivalents at beginning of year	18,499,432	13,192,705
Cash and cash equivalents at end of year	\$ 4,765,541	\$ 11,836,940
Classified as:		
Cash, cash equivalents, and investments	\$ 16,615	\$ 3,716,182
Restricted cash with fiscal agents	2,738,075	-
Restricted cash and cash equivalents	2,010,851	8,120,758
Totals	\$ 4,765,541	\$ 11,836,940

The notes to the financial statements are an integral part of this statement

Business-type Activities – Enterprise Funds			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ 1,196,442	\$ 1,085,339	\$ 17,268,251	\$ 8,030,109
-	35,903	432,498	-
127,711	-	231,896	321,846
(668,123)	(327,465)	(20,677,841)	(8,345,190)
(22,955)	-	(66,569)	-
(624,798)	(523,128)	(10,574,054)	(4)
8,277	270,649	(13,385,819)	6,761
1,863,172	1,242,012	5,586,543	-
(33,567)	(129,797)	(2,154,916)	-
(6,800,000)	-	(6,800,000)	(3,300,000)
-	-	10,100,000	-
(4,970,395)	1,112,215	6,731,627	(3,300,000)
14,786,381	-	14,971,614	-
-	631	1,345,396	-
(10,007,422)	(1,503,824)	(42,451,479)	-
(352,700)	-	(4,455,633)	-
(221,438)	-	(1,446,008)	-
-	-	21,498,294	-
-	-	78,248	-
4,204,821	(1,503,193)	(10,459,568)	-
28,492	3,739	1,178,709	231,707
28,492	3,739	1,178,709	231,707
(728,805)	(116,590)	(15,935,051)	(3,061,532)
1,250,784	557,813	33,500,734	5,306,490
\$ 521,979	\$ 441,223	\$ 17,565,683	\$ 2,244,958
\$ 175,981	\$ 441,223	\$ 4,350,001	\$ 2,244,958
345,998	-	3,084,073	-
-	-	10,131,609	-
\$ 521,979	\$ 441,223	\$ 17,565,683	\$ 2,244,958

(continued)

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2008

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ (4,240,380)	\$ (619,889)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	5,958,169	732,566
Landfill closure and postclosure costs	–	596,483
Other receipts	–	–
(Increase) decrease in assets:		
Accounts receivable	(13,173,241)	(108,816)
Allowance for doubtful accounts	–	–
Intergovernmental receivable	–	–
Inventories	(121,594)	–
Increase (decrease) in liabilities:		
Accounts payable	(2,893,796)	15,749
Accrued payroll and compensated absences	63,445	118,034
Deposits payable	(6,064)	140
Deferred revenue	14,449	–
Total Adjustments	(10,158,632)	1,354,156
Net cash provided (used) by operating activities	<u>\$ (14,399,012)</u>	<u>\$ 734,267</u>
Noncash investing, capital and financing activities:		
Capital assets acquired through contributions from developers	\$ 1,529,960	\$ –
Capital assets acquired through contributions from general fund	527,394	–
Total noncash investing, capital and financing activities	<u>\$ 2,057,354</u>	<u>\$ –</u>

The notes to the financial statements are an integral part of this statement

			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ (2,207,609)	\$ (24,200)	\$ (7,092,078)	\$ 99,815
2,167,812	311,881	9,170,428	-
-	-	596,483	-
127,423	-	127,423	-
5,916	(16,160)	(13,292,301)	(50,320)
-	-	-	-
-	-	(121,594)	-
(75,467)	(14,251)	(2,967,765)	(42,730)
7,219	13,379	202,077	(4)
1,627	-	(4,297)	-
(18,644)	-	(4,195)	-
<u>2,215,886</u>	<u>294,849</u>	<u>(6,293,741)</u>	<u>(93,054)</u>
<u>\$ 8,277</u>	<u>\$ 270,649</u>	<u>\$ (13,385,819)</u>	<u>\$ 6,761</u>
\$ -	\$ 220,691	\$ 1,750,651	\$ -
-	158,526	685,920	-
<u>\$ -</u>	<u>\$ 379,217</u>	<u>\$ 2,436,571</u>	<u>\$ -</u>

(concluded)

CITY OF FLAGSTAFF, ARIZONA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	Firemen's Pension Fund
ASSETS	
Cash and cash equivalents	\$ -
Interest receivable	-
Investments	-
Total assets	-
LIABILITIES	
Other liabilities	-
Total liabilities	-
NET ASSETS	
Held in trust for pension benefits and other purposes	\$ -

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2008

	Firemen's Pension Fund
ADDITIONS:	
Investment earnings	\$ 4,879
Other income	-
Total additions	<u>4,879</u>
 DEDUCTIONS:	
Retirement payments	<u>223,843</u>
Total deductions	<u>223,843</u>
 Change in net assets	<u>(218,964)</u>
 Net assets – beginning of year	<u>218,964</u>
Net assets – end of year	<u><u>\$ -</u></u>

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Notes to the Financial Statement
June 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of Flagstaff (the City) was incorporated as a town in 1894 and as a city in 1928. The current City Charter was approved June 29, 1998. The Charter provides for the Council-Mayor form of government and the authority to provide municipal services, as limited by the State Constitution.

The accounting policies of the City of Flagstaff conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to Governmental Units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. For the year ended June 30, 2008, the City implemented the provisions of GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*; and 50, *Pension Disclosure (an amendment of GASB Statements No.25 and No. 27)*. GASB Statement No.48 establishes note disclosure requirements for governments that pledge future revenues as security for its debt. GASB Statement No.50 amends GASB Statements No.25 and No. 27 to require governmental employers to present certain additional pension disclosures in the notes and additional required supplementary information.

The City of Flagstaff is a municipal corporation governed by an elected Mayor and six-member council. The accompanying financial statements include the City and all of its component entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the Government Wide Statement of Net Assets and Activities to emphasize they are legally separate from the government. The City of Flagstaff has no discretely presented component units.

Blended Component Unit: The Municipal Facilities Corporation (MFC) is a non-profit corporation created by the City for the purpose of constructing, acquiring and equipping municipal facilities. For Financial reporting purposes, transactions of the MFC are included as if it were part of the City's operations. In fiscal year 2001 the MFC issued \$4.7 million in bonds for construction on additional facilities owned by the City and currently leased to the United States Geological Survey (USGS). These bonds will be repaid through USGS lease proceeds. In fiscal year 2004 the MFC issued \$25 million in bonds for construction of the Fourth Street Overpass. The voters approved this debt financing in the May 2000 General Election. These bonds will be repaid with the transportation sales tax that was also approved in the May 2000 Election.

Related Organizations: The City of Flagstaff officials are also responsible for appointing board members of other organizations. However, as the City's control is limited to making the appointments and there is not a significant operational nor a significant financial relationship between these organizations and the City, they are not included as part of these financial statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) report on the City and its component units as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which are supported by fees and charges for services.

The government-wide statement of activities demonstrates the degree to which the direct expenses of the various functions and segments of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt and depreciation expense on assets shared by multiple functions are not allocated to the various functions. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, investment income and other revenues not identifiable with particular functions or segments are included as general revenues. The general revenues support the net costs of the functions and segments not covered by program revenues.

Generally, the effect of interfund activity has been removed from the government-wide financial statement. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

Interdepartmental services performed by one department for another are credited to the performing department and charged to the receiving department to reflect the accurate costs of programs. These indirect costs have been included as part of the program expenses reported for the various functional activities. The rates used are intended to reflect full costs in accordance with generally accepted cost accounting principles.

The government-wide statement of net assets reports all financial and capital resources of the government (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals' net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Reservations or designations of net assets imposed by the reporting government, whether by administrative policy or legislative actions of the reporting government, are not shown on the government-wide financial statements.

Also part of the basic financial statements are fund financial statements for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although the reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. The City has opted to add the Bed, Board, and Booze (BBB) Fund and the Transportation Fund as major governmental funds because of community focus and Stormwater Fund as major proprietary fund due to its relation to other proprietary funds. Other non-major funds are combined in a single column on the fund financial statements and are detailed in combining statements included as supplementary information after the basic financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recorded as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. This is the traditional basis of accounting for governmental funds. This presentation is deemed most appropriate to 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental fund financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

The proprietary fund and fiduciary fund financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary fund financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds may be eliminated in the consolidation for the government-wide financial statements, but are included in the fund columns in the proprietary fund financial statements. The net costs/income of the internal service fund is also partially allocated to the business-type activities column on the government-wide financial statements.

On the proprietary fund financial statements, operating revenues are those that flow directly from the operations of that activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items like investment income and interest expense that are not a result of the direct operations of the activity.

The City uses funds to report its financial position and the results of its operations. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses.

The City uses the following fund categories:

Governmental Fund Types

Governmental Funds are those through which most of the governmental functions of the City are financed. The measurement focus is based upon determination of changes in financial position rather than upon net income determination.

General Fund is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General fund will always be considered a major fund in the basic financial statements.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes. There are three special revenue funds that are presented as major funds in the basic financial statements. They are the:

- *Highway User Revenue Fund*, which receives and expends the City's allocation of the Highway User Revenue money. Monies allocated to this fund must be used for Street construction, reconstruction and maintenance.
- *Transportation Tax Fund* that accounts for the receipt and expenditures of the Transportation Tax money. These monies are restricted to financing improvements in the Areas of the 4th Street overpass project, Safe to School/Pedestrian and Bike projects, Traffic Flow and Safety improvements, and Transit Service operations and enhancements.
- *Bed, Board and Booze Tax Fund* that accounts for the Bed, Board and Booze tax revenues and expenditures. These monies are restricted for use in the areas of Beautification, Economic Development, Tourism, Arts & Science, and Recreation.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal and interest. None of the debt service funds are reported as major in the current year.

Capital Projects Fund is used to account for major capital acquisition and construction separate from ongoing operating activities. The city reports its capital project funds as major.

- The *Capital Project Bond Construction Fund* accounts for the activity related to the General Bonding Obligations and associated capital construction for capital projects as approved by voters in May 2004.

Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Proprietary Fund Types

Proprietary Funds are used to account for the City's ongoing organizations and activities, which are similar to those found in the private sector and where cost recovery and the determination of net income is useful or necessary for sound fiscal management. The measurement focus is based upon determination of net income, changes in net assets, financial position, and cash flows.

Enterprise Funds are used to account for operations that provide services to the general public for a fee. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs. The City has four enterprise funds all of which are presented as major funds in the basic financial statements.

- *Water and Wastewater Utility* accounts for the City water pumping, treatment and distribution systems and the City wastewater collection, and treatment systems
- *Environmental Services Fund* that accounts for the operations of City refuse and recycling collection services as well as the management of the City landfill.
- *Airport Fund* that accounts for the construction, operations and maintenance of the City airport.
- *Stormwater Utility* accounts for the activities of the City stormwater system

Internal Service Fund accounts for the operations that provide services to other departments of the government on a cost-reimbursement basis, thus the internal service fund is presented with the proprietary fund financial statements. The internal service fund represents the self-insurance services provided to other departments and accounts for the risk management function of the City as well as maintaining the costs of the City's liability insurance and any claims paid under the City's self-insurance program. These costs are allocated to all operational activities of the City.

Fiduciary Fund Types

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. The reporting focus is on net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements since they are not assets of the City available to support City programs.

Firemen's Pension Fund is a pension trust fund that is used to account for the activity of the City's single-employer retirement system. This fund is accounted for on the same basis as a proprietary fund, using the same measurement focus and basis of accounting. This fund has expended all its resources in fiscal year 2008.

Private Sector Standards

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Non-Current Governmental Assets/Liabilities

GASB Statement No. 34 eliminates the presentation of account groups (formerly the general fixed asset account group and the general long-term debt account group). The governmental long-term assets and liabilities continue to be maintained in the account groups for tracking purposes, but are presented with the governmental activities in the government-wide statement of net assets.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities are generally included on the balance sheet. Operating statements present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Enterprise funds and pension trust funds are accounted for on a flow of economic resources measurement focus whereby all assets and liabilities associated with the operation of these funds are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is used by governmental funds. Revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days after year-end.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Revenues susceptible to accrual include property tax, privilege license tax, highway user tax, state shared sales tax, vehicle license tax, and interest earned on investments. Licenses and permits, charges for services, fines and forfeitures, parks and recreation charges and miscellaneous revenues are recorded when received in cash since they are generally not measurable until actually received.

The accrual basis of accounting is followed for all enterprise funds and the pension trust fund, whereby revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized when incurred.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

Budgets and Budgetary Accounting

The City uses the following procedures in establishing the budgetary data reflected in the accompanying financial statements.

- The maximum legal expenditure permitted for the year is the total budget as adopted. The expenditure appropriations in the adopted budget are maintained in the City's financial system by department within individual funds. Department appropriations may be amended during the year, within administrative guidelines and adopted Council policies.
- The initial budget for the fiscal year may be amended during the year in a legally permissible manner.
- The City Manager is generally authorized to transfer budgeted amounts within any specific department's expenditure appropriation. Any budget revisions requiring a transfer between departments must be approved by the City Council. Additionally, budget revisions involving personnel or capital asset expenditures/expenses must be approved by the City Council.
- All unencumbered expenditure appropriations expire at the end of the fiscal year.
- Encumbered amounts are re-budgeted in the following year as deemed appropriate and necessary after review by the Budget Committee. Budgetary carry forwards are approved by the City Council as part of the budget adoption process.
- All funds of the City have legally adopted budgets with the exception of the Internal Service Fund and Perpetual Care Fund. Formal integration of these budgets into the City's financial systems is employed as a management control device during the year for all funds.

The City prepares its annual budget on a modified cash basis, which differs from GAAP, GASB Statement 34 requires that budgetary comparison statements for the General Fund and major special revenue funds be presented in the annual financial statements. These statements must display original budget, amended budget and actual results on a budgetary basis at the legal level of budgetary control. The City's legal level of budgetary control is at the department level; however the City's financial statements are presented at the functional level of detail. Budgetary comparisons provided in the basic financial section are presented for the General Fund and major special revenue funds at the department level; these are presented as statements. The supplemental section provides budgetary comparisons for non-major special revenue funds, capital projects funds and debt service funds at the same functional level of detail used in financial statements presentation; these are presented as schedules.

D. Assets, Liabilities, and Net Assets

Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in the State's Local Government Investment Pool (LGIP), in obligations of the U.S. Treasury, commercial paper and repurchase agreements. Investment Income from pooled cash and investments is allocated monthly based on the percentage of a fund's average daily equity in pooled cash and investments to the total average daily-pooled equity in pooled cash and investments. Investments are stated at fair value. The City also has an investment policy. Details of the City's investment policy can be found in Note IV.A.

The LGIP is a part of the State of Arizona Treasurer's office. The State Board of Deposit provides oversight for the State Treasurer's pools, and the LGIP Advisory Committee provides consultation and advice to the Treasurer. Investments in the State of Arizona LGIP are stated at fair value, which also approximates the value of the investment upon withdrawal.

For purposes of the statement of cash flows, the City considers cash and cash equivalents, including restricted cash and cash equivalents, to be currency on hand, demand deposits with banks, amounts included in pooled cash and investment accounts and liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents are included in both unrestricted as well as restricted assets.

Receivables and Payables

Accounts receivable and taxes receivable, are shown net of an allowance for uncollectible accounts. The City's property tax is levied each year on or before the third Monday in August based on the previous January 1, full cash value as determined by the Coconino County Assessor. Levies are due and payable in two installments on September 1 and March 1. First half installments become delinquent on November 1; second half installments become delinquent on May 1. Interest at the rate of 12% per annum accrues following delinquent dates. Coconino County bills and collects all property taxes, at no charge to the taxing entities. A lien against property assessed attaches on the first day of January preceding assessment and levy thereon.

Under Arizona tax laws, there are two property tax levies, primary and secondary. Primary property taxes are not restricted as to use and are used to finance the general operations of the City. Secondary property taxes are restricted for general obligation bonded debt service. The secondary property tax levy is recorded as revenue in a debt service fund and transferred to the Water and Wastewater Enterprise Fund, the BBB Fund, the Airport Enterprise Fund and the General Obligation Bond Fund. General Obligation bonds are serviced by each of these funds. For fiscal year 2007-2008, primary and secondary property tax collections amounted to \$4,638,772 and \$6,261,101 respectively.

Inventory

Inventory is valued at cost, which approximates market, using the weighted average cost method. Inventory consists of expendable supplies held for consumption and is charged to expenditure accounts as consumed.

Restricted Assets

Certain debt proceeds of the City's bonds, as well as certain resources set aside for their repayment, are classified as restricted on the balance sheet, or statement of net assets, because they are maintained in trust accounts and their use is limited by applicable debt covenants.

Grant Revenue

The City, a recipient of grant revenues, recognizes revenues (net of estimated uncollectible amounts, if any), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted to the City before the eligibility requirements are met are reported as deferred revenues. Some grants and contributions consist of capital assets or resources that are restricted for capital purposes – to purchase, construct, or renovate capital assets associated with a specific program. These are reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the City.

Capital Assets

Prior to GASB Statement No. 34, capital assets for governmental funds were recorded in the General Fixed Assets Account Group and were not depreciated. The new reporting model requires that all capital assets, whether owned by governmental activities or business-type activities, be recorded and depreciated (unless the modified approach is used) in the government-wide financial statements. The City has chosen not to apply the modified approach to any networks or subsystems of infrastructure assets. No long-term assets or depreciation are shown in the governmental fund financial statements.

Capital assets, including public domain infrastructure (i.e., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and other assets that are immovable and of value only to the City) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 (\$25,000 for capital improvement projects and infrastructure assets) and an estimated useful life greater than three years. Such assets are recorded at historical cost or estimated historical cost if actual amounts are unknown. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its life, are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Major capital outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, if material.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives (land and construction-in-progress are not depreciated):

<u>Assets</u>	<u>Useful life (years)</u>
Buildings	20–50
Improvements	10–20
Machinery and Equipment	5–20
Infrastructure	10–50

Compensated Absences

Vacation and sick leave is granted to all regular and part-time permanent employees. The annual amount of vacation time accrued varies depending on classification and years of service. Accumulated vacation leave vests and the City is obligated to make payment if the employee terminates. Sick leave accrues at rates based on the full time equivalency status of each employee. Vested (at least 20 years of service) sick leave is payable upon retirement, disability or death of up to 50 percent (not more than 520 hours) of accumulated sick leave.

For the governmental fund financial statements, the current payroll and current portion of the compensated absences are recorded as a current liability of the applicable funds. Long-term liabilities of governmental funds are not shown on the fund financial statements. For the government-wide financial statements, as well as the proprietary fund financial statements, all of the accrued liabilities for compensated absences are recorded as a liability.

Long-Term Obligations

In the government-wide financial statements, and enterprise fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs in the period in which the bonds are issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Interfund Transactions

Interfund transactions, consisting of services performed for other funds or costs billed to other funds are treated as expenditures in the fund receiving the services and as a reimbursement reducing expenditures in the fund performing the services. Exceptions include water sales, sewer charges, and environmental service charges that are recorded as revenue in the enterprise funds and expenses or expenditures in the department receiving the service. In addition, operating transfers are made between funds to shift resources from a fund legally authorized to receive revenue to a fund authorized to expend the revenue.

Fund Equity

In the fund financial statements, reserved fund balance is defined as that portion of fund balance that has legally been segregated for specific purposes. Designated fund balance is defined as that portion of fund equity for which the City has made tentative plans for future use of financial resources. Unreserved/undesignated fund balance is defined as that portion of fund balance, which is available for use in a future period.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund financial statements are presented on a current financial resources measurement focus and modified accrual accounting basis while the government-wide financial statements are prepared on a long-term economic resources measurement focus and accrual accounting basis. Reconciliation's briefly explaining the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements immediately follow each fund financial statement.

Reconciliation of Governmental Funds Balance Sheet and the government-wide Statement of Net Assets:

	Total Governmental Funds	Capital Assets (1)	Long-Term Liabilities (2)	Internal Service Fund (3)	Reclass and Eliminations (4)	Statement of Net Assets Totals
Assets						
Cash and cash equivalents	\$ 40,204,627	\$ -	\$ -	\$ 2,244,958	\$ (31,742,148)	\$ 10,707,437
Cash with fiscal agents	6,524,244	-	-	-	-	6,524,244
Investments	-	-	-	-	31,742,148	31,742,148
Accounts receivable, net	6,904,006	-	323,365	87,711	-	7,315,082
Interest receivable	368,482	-	-	30,505	-	398,987
Intergovernmental receivables	4,599,511	-	-	-	-	4,599,511
Bond proceeds receivable	127,674	-	-	-	-	127,674
Special assessments receivable	1,007	-	-	-	-	1,007
Interfund receivable	5,500,000	-	-	3,652,932	(5,500,000)	3,652,932
Deferred issuance costs – Prepaid items	-	-	541,407	-	-	541,407
Inventory	405,389	-	-	-	-	405,389
Restricted cash and cash equivalents	26,118,147	-	-	-	-	26,118,147
Restricted investments	-	-	-	-	-	-
Capital assets	-	283,112,468	-	-	-	283,112,468
Total Assets	\$ 90,753,087	\$ 283,112,468	\$ 864,772	\$ 6,016,106	\$ (5,500,000)	\$ 375,246,433
Liabilities and Net Assets						
Accounts payable	\$ 7,874,910	\$ -	\$ -	\$ 437,217	\$ -	\$ 8,312,127
Accrued payroll & compensated absences	2,012,001	-	-	-	-	2,012,001
Interest payable	1,930,130	-	-	-	-	1,930,130
Interfund payable	5,500,000	-	-	-	(5,500,000)	-
Unearned revenue	851,548	-	-	-	2,123,592	2,975,140
Deferred revenue	2,333,723	-	(210,131)	-	(2,123,592)	-
Guaranty and other deposits	1,498,069	-	-	-	-	1,498,069
Arbitrage rebate	-	-	376,125	-	-	376,125
Current bonds/contracts payable	4,595,000	-	-	-	-	4,595,000
Unamortized bond premium	-	-	1,004,316	-	-	1,004,316
Compensated absences	-	-	3,491,142	-	-	3,491,142
Unmatured long-term debt	-	-	80,659,932	-	-	80,659,932
Fund balance/Net Assets	64,157,706	283,112,468	(84,456,612)	5,578,889	-	268,392,451
Total liabilities and net assets	\$ 90,753,087	\$ 283,112,468	\$ 864,772	\$ 6,016,106	\$ (5,500,000)	\$ 375,246,433

- (1) Capital assets (land, buildings, equipment, etc.) used in governmental activities are purchased or constructed with the costs of those assets are reported as expenditures in governmental funds, and thus a reduction in fund balance. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Costs of capital assets	\$ 410,743,368
Accumulated depreciation	(127,630,900)
	<u>\$ 283,112,468</u>

- (2) Bond issuance costs are expensed when incurred in governmental funds, but are deferred and amortized over the life of the bonds in the statement of net assets.

Unamortized bond issue costs	<u>\$ 541,407</u>
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Certain receivables are not recognized in the governmental funds, but are earned in the statement of net assets.

Deferred court receivables	<u>\$ 323,365</u>
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Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly are not reported as fund liabilities in the governmental fund statement. All liabilities, both current and long-term are reported in the statement of net assets.

Bonds payable	\$ 85,254,932
Compensated absences	3,491,142
Arbitrage rebate	376,125
Unamortized bond premium	1,004,316
Subtotal	<u>90,126,515</u>
Less: current portion of bonds and leases	<u>4,595,000</u>
	<u>\$ 85,531,515</u>

Deferred revenue for the long-term special assessment receivables and property tax shown on the governmental fund statements is not deferred on the statements of net assets.

Deferred special assessment	\$ 1,007
Deferred property tax	209,124
	<u>\$ 210,131</u>

- (3) Internal service funds are used by management to charge the costs self insurance to the individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets, but are not included on the governmental fund balance sheet.

ISF net assets	<u>\$ 5,578,889</u>
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- (4) Certain interfund transactions between governmental activities and between business-type activities are eliminated in the consolidation of those activities for the statement of net assets.

Interfund receivables	\$ 5,500,000
Interfund payables	(5,500,000)
	<u>\$ -</u>

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

Reconciliation of Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities:

	Total Governmental Funds	Capital Related Items (1)	Long-Term Revenues/ Expenses (2)	Internal Service Fund (3)	Adjustments and Eliminations (4)	Statement of Activities Totals
Revenues and Other Sources						
Taxes	\$ 43,964,317	\$ -	\$ 65,287	\$ -	\$ -	\$ 44,029,604
Intergovernmental	20,425,088	-	-	-	-	20,425,088
Grants and entitlements	13,556,680	-	-	-	-	13,556,680
Charges for services	2,704,333	-	-	-	-	2,704,333
Special assessments	2,449	-	-	-	-	2,449
Licenses and permits	1,815,062	-	-	-	-	1,815,062
Fines and forfeitures	1,336,146	-	181,168	-	-	1,517,314
Rent	1,496,858	-	-	-	-	1,496,858
Investment earnings	3,731,116	-	-	172,723	-	3,903,839
Contributions	1,308,938	4,127,954	-	-	-	5,436,892
Miscellaneous	819,325	-	-	-	-	819,325
Total revenue	91,160,312	4,127,954	246,455	172,723	-	95,707,444
Expenditures/Expenses						
General governmental	10,229,814	662,364	388,595	(9,742)	-	11,271,031
Public safety	25,696,174	1,063,594	293,710	(23,147)	-	27,030,331
Public works	1,617,311	215,279	63,126	(1,627)	-	1,894,089
Economic and physical development	10,335,964	124,994	104,350	(9,133)	-	10,556,175
Culture and recreation	10,267,649	1,343,189	6,250	(9,972)	-	11,607,116
Highways and streets	8,505,722	6,992,594	30,463	(13,136)	-	15,515,643
Principal retirement	5,046,398	-	(5,046,398)	-	-	-
Interest and other charges	3,020,927	-	(104,547)	-	-	2,916,380
Capital outlay	46,465,549	(46,465,549)	-	-	-	-
Total expenditures/expenses	121,185,508	(36,063,535)	(4,264,451)	(66,757)	-	80,790,765
OTHER FINANCING SOURCES (USES):						
Refunding bonds issued	-	-	-	-	-	-
Bond proceeds	-	-	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-	-	-
Bond (discount) premium	-	-	-	-	-	-
Sale of capital assets	2,176,808	(16,469)	-	-	-	2,160,339
Transfers in	17,181,576	-	-	-	-	17,181,576
Transfers out	(20,085,809)	-	-	-	(685,920)	(20,771,729)
Total other financing sources (uses)	(727,425)	(16,469)	-	-	(685,920)	(1,429,814)
Net change for the year	\$ (30,752,621)	\$ 40,175,020	\$ 4,510,906	\$ 239,480	\$ (685,920)	\$ 13,486,865

Capital outlay	\$ 46,465,549
Depreciation expense	(10,402,014)
Gain (loss) on sale of capital assets	(16,469)
Donated capital assets	4,127,954
	<u>\$ 40,175,020</u>

- (2) Special assessment principal payments received are reported as revenue on the governmental fund statements, but are reductions to the outstanding special assessment debt for government-wide reporting. Property tax revenue not received within 30 days of year end are deferred for governmental fund reporting, but are not deferred for government-wide reporting.

Property tax	\$ 65,287
Court revenue	181,168
	<u>\$ 246,455</u>

The costs of issuing bonds are reported as an expenditure in governmental funds in the year of bond issuance. For the City as a whole, however, the bond issuance costs are deferred and amortized (expensed) over the life of the bonds.

Amortization of bond issuance costs	\$ (57,156)
Arbitrage rebate	(271,395)
	<u>\$ (328,551)</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrual of long-term compensated absences	<u>\$ (557,943)</u>
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Prepayment of bond principal is reported as an expenditure in governmental funds and thus has the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the long-term liabilities in the statement of net assets and do not result in an expense in the statement of activities

Principal bond payments	\$ 5,046,398
Amortization of bond premium	104,547
	<u>\$ 5,150,945</u>

- (3) Internal service funds are used by management to charge the costs of self insurance to the individual funds. The adjustments for internal service funds "close" those funds by charging the additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year.

Revenue	\$ 172,723
Expenditures	66,757
	<u>\$ 239,480</u>

- (4) Certain interfund transactions between governmental activities and between business-type activities are eliminated in the consolidation of those activities for the statement of net assets.

Transfer of capital assets to enterprise fund	<u>\$ (685,920)</u>
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C. Fund Balance Restatement

Change due to Accounting Error

An accounting error was corrected between the BBB fund and the secondary property tax revenue fund that resulted in a prior period adjustment to fund balance. The overall effect of this transfer adjustment has no impact on the net assets of the government wide statements.

	Governmental Fund Balance at June 30, 2007	Correction of prior year adjustment	Governmental Fund Balance at July 1, 2007
Fund Balance Restatement			
BBB Fund	\$ 4,343,495	\$ 278,935	\$ 4,622,430
Other Governmental Funds	5,739,167	(278,935)	5,460,232
Total fund balances	<u>\$ 10,082,662</u>	<u>\$ -</u>	<u>\$ 10,082,662</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Budget Basis of Accounting

The City's accounting records for General Government operations (General, Special Revenue, and Debt Service Funds) are maintained on a basis consistent with Generally Accepted Accounting Principles (GAAP) with measurable revenues recorded when they become available to finance expenditures in the current fiscal year. "Available" is defined as: collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on debt, are recognized in the accounting period in which the liability arises. State statute allows for encumbrances to be recognized for a 60-day period following the end of the prior fiscal year as uses of prior year appropriations. To ensure that appropriations do not lapse, departments are directed to re-budget for all items delivered after June 30.

For the Enterprise Funds, the annual budget is prepared on a basis that differs from GAAP because state law requires capital purchases and debt service payments to be budgeted as expenses, and bond proceeds and grants that are to be utilized are to be budgeted as revenues.

The accounting and budgeting systems for the City are in accordance with Generally Accepted Accounting Principles (GAAP) format, with minimal variances between the two systems. Budget basis for enterprise funds differ primarily due to state laws. The major differences are as follows:

- Encumbrances (contractual commitments) are considered the equivalent of expenditures. Encumbrances at year-end for goods or services, which are not received prior to the end of the fiscal year, are cancelled.
- Fund balances reserved for inventory and bonded debt are not included in the budget.
- Certain expenditures, such as depreciation and landfill closure and post closure accrual, are not included in the budget.
- Enterprise funds budget capital expenditures and debt service payments as expenses.
- Enterprise funds budget bond proceeds and grants as revenues.

The City will utilize a number of different fund types to segregate the financial activity within the City either due to regulatory reasons or as designated internally. The fund classifications are Governmental funds, Proprietary funds, and Fiduciary funds.

Review and Approval

Issues presented during the review and approval period include discussion topics of the Council during the fall and spring retreats. The fall and spring retreats were held in October and March respectively, to give City staff the opportunity to present major discussion points to Council and the public. The goal is for Council to make policy decisions and direct staff in preparing the budget. This provides adequate time for the Council to gather input on major budget issues prior to preparation of the budget. The City Council holds Study Sessions in May. The Council reviews and discusses the issue papers included in the Budget Review Book as well as all personnel recommendations, capital equipment recommendations, and the capital improvement plan. The Council arrives at a consensus for all decisions needed. The Study Sessions provide the opportunity for City management, departments, and the public to offer information and recommendations to the City Council.

The proposed budget is presented to Council for tentative adoption on or before the third Monday in July. Two public hearings are held on the content of the budget. State law requires the operating budget to be all-inclusive. Therefore, the budget includes provisions for contingent revenues, e.g., Passengers Facility Charges, and expenditures that cannot be accurately determined when the budget is adopted, e.g., grants. The Resolution adopting the annual budget requires Council authorization for any expenditure from contingencies, as well as transfer of budget authority between departments.

The City operates under the State Expenditure Limitation with a one-time adjustment to the base. The adjustment provided for an increase to the base limit to allow for the expenditure of funds resulting from the addition of a 2% Bed, Board, & Booze Tax. Flagstaff is not a Home Rule city. Alternative Home Rule Expenditure Control municipalities require voter approval every four years.

The Adopted Budget reflects the total funds appropriated. Certain exclusions are allowed by the state [e.g., bond proceeds, debt service, grants] in computing the Expenditure Limitation and this total cannot be exceeded.

Budget authority can be transferred between line items within a Division. At year-end, Department budgets are reviewed and budget authority is transferred from contingencies by Resolution as necessary. Additionally, any inter-fund transfer of appropriations requires Council approval. Council can also amend total appropriations for a fund during the year by Resolution as long as there is a corresponding increase/decrease in another fund so that the expenditure limitation is not exceeded.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The City maintains a cash and investment pool that is available for use by all funds except the Fireman's Pension Fund, which have investments held separately by a trustee. Each fund type's portion of this pool is displayed on the government-wide Statement of Net Assets as "Cash and cash equivalents," "Cash with fiscal agents," "Investments," and "Restricted cash and cash equivalents."

Deposits

At June 30, 2008, the carrying amount of the City's deposits was \$10,076,050 and the bank balance was \$11,017,234. The \$941,184 difference represents deposits in transit, outstanding checks, and other reconciling items at June 30, 2008.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Statutes and the City's investment policy require collateral for demand deposits, certificates of deposit, and repurchase agreements at 102 percent of all deposits covered by federal depository insurance. As of June 30, 2008, all City deposits and those held by fiscal agents were covered by federal depository insurance or by collateral held by the City's agent in the City's name, except for \$991,642 which is covered by collateral held by the pledging financial institution. All investments are either registered in the City's name or are held by a third party in the City's name except for \$338,306 of City's repurchase agreement that is uncollateralized and \$2,044,340 of the City's repurchase sweep agreement which is held by the financial institution, not in the name of the City.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy matches maturities with cash flow dates, unless matched to a specific requirement the City may not invest more than 25 percent of the portfolio for a period greater than three years or any portion of the portfolio for a period greater than 10 years.

At June 30, 2008, the City's investments included the following

Investment Type	Fair Value	Weighted Average Maturity (in years)
U.S. agency securities – implicit	\$ 28,780,614	3.38
Certificate of deposit	2,961,533	0.66
Municipal securities	27,000	2.000
Repurchase sweep agreement	2,044,340	0.003
Repurchase agreement	12,608,529	1.000
State Investment Pool	36,186,593	0.101
Total fair value of investments	<u>\$ 82,608,609</u>	
Portfolio weighted average maturity		1.399

Credit Risk

City resolution and State Statutes authorized the City to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, repurchase agreements, money market accounts, certificates of deposit, and the State of Arizona Local Government Investment Pool (LGIP).

The credit quality ratings of investments as described by nationally recognized Standard and Poor's rating service as of June 30, 2008 is as follows:

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	A+	Unrated
U.S. agency securities – implicit	\$ 43,433,483	N/A	\$ 43,433,483	\$ –	\$ –
Certificates of deposit	2,961,533	Collateralized	–	–	2,961,533
State investment pool (LGIP)	36,186,593	N/A	36,186,593	–	–
Municipal securities	27,000	A	–	27,000	–
Total	<u>\$ 82,608,609</u>		<u>\$ 79,620,076</u>	<u>\$ 27,000</u>	<u>\$ 2,961,533</u>

Concentration of Credit Risk

To lessen the risk of loss attributed to the magnitude of a government's investment in a single issuer the City diversifies its investment portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. State of Arizona Investment Pool represents 44 percent of the City's total investments. In addition, Federal Home Loan Bank, Federal Home Mortgage Corporation, and Federal National Mortgage Association represent 18 percent, 23 percent and 7 percent, respectively, of the City's total investment.

At June 30, 2008, the City's cash and investments included the following:

Carrying amount of investments	\$ 82,608,609
Carrying amount of cash deposits	10,076,050
Total pooled cash and investments	<u>\$ 92,684,659</u>
Pooled cash and cash equivalents – unrestricted	\$ 15,057,438
Investments – unrestricted	31,769,148
Restricted cash with fiscal agent	9,608,317
Restricted cash and investments	36,249,756
Total pooled cash and investments	<u>\$ 92,684,659</u>

Cash and cash equivalents at June 30, 2008 consisted of the following:

Investments included in cash and cash equivalents	\$ 15,006,980
Carrying amount of unrestricted city deposits	34,733
Cash on hand	15,725
Total cash and cash equivalents per statement of net assets	<u>\$ 15,057,438</u>

Investment income comprises the following for the year ended June 30, 2008:

Net interest and dividends	\$ 4,253,849
Net increase (decrease) in the fair value of investments	619,106
Total net investment income	4,872,955
Less: net investment income of Fiduciary funds	(4,879)
Total net investment income per statement of activities	<u>\$ 4,868,076</u>

The net increase in the fair value of investments during fiscal year 2007–2008 was \$619,106. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain (loss) on investments held at June 30, 2008 was \$207,666.

In previous years, the City reported a decrease in fair value of \$1,473,712 consisting of the City's share of a loss on an investment within the Local Government Investment Pool. The State and numerous other bondholders filed suit against the principals, underwriters, trustees, accountants, and others in May 2003. The case is presently pending litigation. There have been several distributions since June 2006. The distributions include payments from the trustee and settlement proceeds received from pending litigation. The City has received \$14,973 during the fiscal year plus interest of \$368 as a partial recovery, with total to date recovery of \$777,005.

B. Receivables

Receivables as of June 30, 2008, including allowances for uncollectible accounts, are as follows:

Fund	Accounts	Interest	Intergov- ernmental	Bond Proceeds	Special Assessments	Total Receivables
Governmental Activities						
General	\$ 4,171,097	\$ 154,044	\$ 2,569,906	\$ 127,674	\$ –	\$ 7,022,721
Highway User Revenue	585,840	33,169	–	–	–	619,009
Transportation	1,002,468	45,664	1,166,531	–	–	2,214,663
BBB	583,745	28,664	10,627	–	–	623,036
Capital Projects Bond Construction	382,738	61,937	–	–	–	444,675
Other Governmental Funds	591,483	45,004	852,447	–	1,007	1,489,941
Less: Allowance for Uncollectibles	(90,000)	–	–	–	–	(90,000)
Total Government Funds	7,227,371	368,482	4,599,511	127,674	1,007	12,324,045
Internal Services Funds	87,711	30,505	–	–	–	118,216
Total Governmental Activities	7,315,082	398,987	4,599,511	127,674	1,007	12,442,261
Business-Type Activities						
Water and Wastewater	15,637,050	45,934	1,293	1,588,066	–	17,272,343
Environmental Services	1,010,203	60,367	12,929	–	–	1,083,499
Airport	94,704	3,671	806,894	–	–	905,269
Stormwater	115,834	941	–	–	–	116,775
Less: Allowance for Uncollectibles	(71,000)	–	–	–	–	(71,000)
Total Business-Type Activities	16,786,791	110,913	821,116	1,588,066	–	19,306,886
Total activities	\$ 24,101,873	\$ 509,900	\$ 5,420,627	\$ 1,715,740	\$ 1,007	\$ 31,749,147

The only receivables not expected to be collected within one year include \$30,000 of environmental services fund and \$38,000 of the general fund.

C. Capital Assets

A summary of capital asset activity, for the government-wide financial statements, for the fiscal year ended June 30, 2008 is as follows:

	Balance July 1, 2007	Additions	Deletions and Retirements	Transfers In (out)	Balances June 30, 2008
Governmental activities:					
Non-depreciable assets:					
Land	\$ 40,662,643	\$ 121,337	\$ -	\$ 1,511,211	\$ 42,295,191
Construction -in-progress	21,255,611	42,457,818	-	(6,981,209)	56,732,220
Total non-depreciable assets	61,918,254	42,579,155	-	(5,469,998)	99,027,411
Depreciable assets:					
Buildings	37,637,682	353,163	-	2,543,892	40,534,737
Improvements	21,181,757	202,696	-	132,638	21,517,091
Machinery and equipment	27,189,865	2,200,363	(728,343)	170,458	28,832,343
Infrastructure	213,764,910	5,258,126	(128,340)	1,937,090	220,831,786
Total depreciable assets	299,774,214	8,014,348	(856,683)	4,784,078	311,715,957
Accumulated depreciation:					
Buildings	(11,872,841)	(839,657)	-	-	(12,712,498)
Improvements	(8,239,463)	(1,106,052)	-	-	(9,345,515)
Machinery and equipment	(15,501,282)	(1,858,184)	711,874	-	(16,647,592)
Infrastructure	(82,455,514)	(6,598,121)	128,340	-	(88,925,295)
Total accumulated depreciation	(118,069,100)	(10,402,014)	840,214	-	(127,630,900)
Governmental activities capital assets, net	\$ 243,623,368	\$ 40,191,489	\$ (16,469)	\$ (685,920)	\$ 283,112,468

	Balance July 1, 2007	Additions	Deletions and Retirements	Transfers In (out)	Balances June 30, 2008
Business-type activities:					
Non-depreciable assets:					
Land	\$ 10,300,797	\$ -	\$ -	\$ -	\$ 10,300,797
Construction -in-progress	31,860,745	27,366,308	-	(10,690,391)	48,536,662
Total non-depreciable assets	42,161,542	27,366,308	-	(10,690,391)	58,837,459
Depreciable assets:					
Buildings	79,227,573	-	-	546,515	79,774,088
Improvements	286,762,835	12,959,144	(30,311)	10,829,796	310,521,464
Machinery and equipment	18,103,097	3,624,195	(520,176)	-	21,207,116
Total depreciable assets	384,093,505	16,583,339	(550,487)	11,376,311	411,502,668
Accumulated depreciation:					
Buildings	(30,064,136)	(1,780,121)	-	-	(31,844,257)
Improvements	(88,850,659)	(6,347,383)	(6,395)	-	(95,204,437)
Machinery and equipment	(11,984,176)	(1,042,924)	526,573	-	(12,500,527)
Total accumulated depreciation	(130,898,971)	(9,170,428)	520,178	-	(139,549,221)
Business-type activities capital assets, net	\$ 295,356,076	\$ 34,779,219	\$ (30,309)	\$ 685,920	\$ 330,790,906

Depreciation expense was charged to the governmental functions in the government-wide financial statements as follows:

Governmental Activities:

General government	\$ 662,434
Public safety	1,063,594
Public works	215,279
Economic and physical development	124,994
Culture and recreation	1,343,119
Highway and streets	6,992,594
Total depreciation expense – governmental activities	\$ 10,402,014

D. Interfund Receivables, Payables, and Transfers

Interfund receivables and payables

Net interfund receivables and payables between governmental activities and business-type activities of \$3,652,932 are included in the government-wide financial statements at June 30, 2008. The interfund balances at June 30, 2008 are short-term loans to cover temporary cash deficits in various funds. This occasionally occurs prior to bond sales or grant reimbursements. With the exception of the \$94,897 between the Airport and Internal Service Fund, all interfund balances outstanding at June 30, 2008 are expected to be repaid within one year.

The following interfund receivables and payables are included in the fund financial statements at June 30, 2008:

Fund	Interfund Receivables	Interfund Payables
Governmental Funds:		
General	\$ 5,500,000	\$ -
Transportation	-	200,000
Capital projects bond construction	-	5,000,000
Other governmental funds	-	300,000
Internal service	3,394,897	-
Total governmental funds	<u>8,894,897</u>	<u>5,500,000</u>
Business-Type Funds:		
Water and wastewater	-	3,300,000
Airport	-	94,897
Total enterprise funds	<u>-</u>	<u>3,394,897</u>
Total governmental and enterprise funds	<u>\$ 8,894,897</u>	<u>\$ 8,894,897</u>
Less: fund eliminations	(5,500,000)	
Adjustment for internal service fund elimination	<u>258,035</u>	
Total government-wide statement of net assets	<u><u>\$ 3,652,932</u></u>	

Transfers

The net transfers of \$3,590,153 from governmental activities to business-type activities on the government-wide statement of activities are primarily debt service and operational subsidies from the General Fund. There were no significant transfers during fiscal year 2008 that were either non-routine in nature or inconsistent with the activities of the fund making the transfer. The following transfers are reflected in the fund financial statements for the year ended June 30, 2008:

<u>Fund</u>	<u>Transfers out</u>	<u>Transfers In</u>
Governmental Activities:		
General fund	\$ 8,212,498	\$ 3,575,847
Highway user revenue fund	85,401	5,892,119
Transportation fund	4,094,899	-
BBB fund	2,306,225	1,437,289
Capital projects bond construction fund	-	986,635
Other governmental funds	5,386,786	5,289,686
Total governmental activities	<u>20,085,809</u>	<u>17,181,576</u>
Business-Type Activities:		
Water and wastewater fund	1,972,064	2,341,359
Environmental services fund	19,488	140,000
Airport fund	33,567	1,863,172
Stormwater fund	129,797	1,400,538
Total enterprise activities	<u>2,154,916</u>	<u>5,745,069</u>
Total governmental and business-type activities	<u>\$ 22,240,725</u>	<u>\$ 22,926,645</u>
Less: fund eliminations	(19,336,492)	
Add: capital assets transfer	<u>685,920</u>	
Total government-wide statement of activities	<u><u>\$ 3,590,153</u></u>	

E. Leases

Operating Leases Expenditures

The City leases library space under a non-cancelable operating lease. The lease is for the East Flagstaff Library. The terms of the contract is for a period of 10 years with adjustments on July 1st to the lease amount based on the prior year change in the Consumer Price Index for the prior year. Fiscal Year 2008 lease expense for the library was \$84,368. The schedule below for future minimum lease expenses reflects the change in the rental rate as of July 1, 2008.

<u>Year Ending June 30</u>	<u>East Flagstaff Library</u>
2009	\$ 79,194
2010	79,194
2011	79,194
2012	79,194
2013	52,796
Total	<u><u>\$ 369,572</u></u>

The City has entered into several operating lease agreements, with cancellation provisions, for the purpose of leasing office space and land. Lease expenditures for these items for the period ending June 30, 2008 were \$158,201.

Operating Lease Revenues

The City leases several City-owned buildings under cancelable and non-cancelable agreements. The carrying value of the leased assets is \$4,730,368 (cost of \$5,446,368 less accumulated depreciation of \$715,650) with current depreciation of \$132,927. Certain leases contain provisions for future rate increases based on changes in the Consumer Price Index. Total revenue for fiscal year 2008 was \$1,483,275. The City currently has one lease with non-cancelable terms that is for USGS building #6, which is guaranteed through August 2018. The following table represents the future minimum lease receivable from the lease with non-cancelable terms. The amounts shown include revenue related to the asset and the operational expenses.

Year Ending June 30	USGS Building #6
2009	\$ 786,916
2010	787,720
2011	787,720
2012	787,720
2013	787,720
2014-2018	3,216,523
Total	<u>\$ 7,154,319</u>

In addition, the Airport Fund has several leases under cancelable agreements. The leases are for terminal space, hangars, shades, tiedowns, and ground leases. Lease revenue in the Airport fund for fiscal year 2008 was \$1,068,968. The carrying value of the leased assets is \$5,811,653 (cost of \$7,983,707 less accumulated depreciation of \$2,172,054) with current year depreciation of \$187,435.

F. Long-Term Debt

General Obligation Bonds

The City of Flagstaff issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligations bonds issued in prior years was \$71,624,064. Of the total amount originally authorized, \$15.9 million remains unissued.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. The Water and Wastewater General Obligation Bonds are backed by the ultimate taxing power and general revenues of the City; however, these bonds are carried as a liability of the Water and Wastewater Fund to reflect the intention of the City to retire those bonds from resources in the Water and Wastewater Fund.

General obligation bonds outstanding at June 30, 2008:

Purpose	Amount
Governmental activities	\$ 29,350,000
Business-type activities	1,680,000
Business-type activities – refunding	8,835,000
Total general obligation bonds outstanding	<u>\$ 39,865,000</u>

General obligation bonds payable at June 30, 2008 consist of the following individual issues:

Governmental Activities:

\$3,100,000 Parks and Recreation Bonds, Series 2001 due in annual installments of \$385,000 to \$505,000 through July 1, 2014; interest rate at 4.375% to 4.75%.	\$ 2,715,000
\$31,500,000 Capital Projects, Series 2006 due in annual installments of \$1,180,000 to \$2,445,000 through July 1, 2023; interest rate at 3.25% to 5.25%.	26,635,000
Total Governmental Activities	<u>29,350,000</u>

Business-type activities:

Water and Wastewater:

\$8,000,000 Water Improvement Project Bonds, Series 1997, principal payment of \$1,680,000 due July 1, 2013; interest at 4.5%. Fiscal years 2007–2012 refunded in December 2003.	1,680,000
\$13,845,000 Water and Wastewater Refunding Bonds Series 2001, due in annual installments of \$1,605,000 to \$2,355,000 through July 1, 2009; interest at 3% to 5%.	2,349,000
\$8,230,000 Water Refunding Bond, Series 2003, due in annual installments of \$190,000 to \$1,960,000 through July 1, 2013; interest at 3.0% – 3.25%.	<u>6,135,000</u>
Total Water and Wastewater	<u>10,164,000</u>

Airport:

\$2,025,000 Airport Refunding Bonds, Series 2001 due in annual installments of \$235,000 to \$345,000 through July 1, 2009; interest at 3% to 5%.	<u>351,000</u>
Total Business-type Activities	<u>10,515,000</u>
Total General Obligation Bonds	<u>\$ 39,865,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 1,705,000	\$ 1,310,327	\$ 3,055,000	\$ 409,988
2010	1,780,000	1,236,850	1,770,000	263,450
2011	1,850,000	1,161,833	1,860,000	205,926
2012	1,930,000	1,083,870	1,960,000	145,476
2013	2,020,000	989,670	1,870,000	81,776
2014-2018	9,505,000	3,474,589	-	-
2019-2023	10,560,000	1,206,923	-	-
Total	<u>\$ 29,350,000</u>	<u>\$ 10,464,062</u>	<u>\$ 10,515,000</u>	<u>\$ 1,106,616</u>

Special Assessment Bonds

Special assessment bonds are secured by pledges of revenues from special assessments levied against the benefiting property owners. Proceeds from special assessment bonds are used for improvements such as paving, sidewalks, and sewers. Payments made by the assessed property owners are pledged as collateral. In the event of default by a property owner, the lien created by the assessment is sold at public auction and the proceeds are used to offset the defaulted assessment. If there is no purchase at the public auction, the City is required to buy the property with funds appropriated from the General Fund. Annual principal and interest on the bonds are expected to require 100% of net revenues. The total principal and interest remaining to be paid on the bonds is \$19,257,000. Principal and interest for the current year and total supplemental property tax revenue were \$92,877 and \$13,502, respectively.

Special assessment bonds outstanding at June 30, 2008:

Purpose	Amount
Governmental activities	<u>\$ 19,257,000</u>

Special assessment bonds payable at June 30, 2008 consist of the following individual issues:

Governmental Activities

\$720,000 Improvement District Bonds, Series 1999 due in annual installments of \$43,000 to \$94,000, through January 1, 2010; interest at 4.9%.	\$ 182,000
\$19,075,000 Improvement District Bonds, 2007 due in annual installments of \$460,000 to \$1,345,000, through January 1, 2032; interest at 5.0%.	19,075,000
Total Special Assessment Bonds	<u>\$ 19,257,000</u>

Annual debt service requirements to maturity for special assessment bonds are as follows:

June 30	Principal	Interest
2009	\$ 88,000	\$ 960,462
2010	554,000	944,553
2011	485,000	918,625
2012	505,000	893,875
2013	535,000	867,875
2014–2018	3,095,000	3,900,625
2019–2023	3,945,000	3,024,875
2024–2028	5,035,000	1,908,125
2029–2032	5,015,000	516,625
Total	<u>\$ 19,257,000</u>	<u>\$ 13,935,640</u>

Revenue Bonds

Highway User Revenue Fund bonds (HURF) are issued specifically for the purpose of constructing street and highway projects. These bonds are repaid out of the HURF fund by gas tax revenues collected by the State of Arizona and distributed to cities and towns based on a formula of population and gas sales within each county. The total principal and interest remaining to be paid on the bonds is \$7,234,475. Principal and interest for the current year and total gas tax revenue were \$1,811,385 and \$7,422,359, respectively.

Water & Sewer Revenue bonds are issued as authorized by the voters for the construction, acquisition, furnishing, and/or equipping of water and sewer facilities and related systems. The Water & Sewer Revenue bonds are collateralized by revenue in excess of operating and maintenance expenses of the City's water & sewer utility system, and are repaid via user charges or fees for service. Also see Schedule 16 in the Statistical Section of this report.

Revenue bonds outstanding at June 30, 2008:

Purpose	Amount
Governmental activities	\$ 5,230,000
Governmental activities – refunding	1,095,000
Business-type activities	5,212,135
Total general obligation bonds outstanding	<u>\$ 11,537,135</u>

Revenue bonds at June 30, 2008 consist of the following individual issues:

Governmental Activities:

\$5,580,000 Junior Lien Street and Highway User Revenue Bonds, Series 1992 serial bonds due in installments of \$350,000 to \$1,725,000 through July 1, 2012; interest at 5.5% to 9.5%.	\$ 5,230,000
\$9,375,000 Street and Highway Revenue Refunding Bonds, Series 2003 serial bonds due in installments of \$165,000 to \$1,940,000 through July 1, 2009; interest at 2% to 3.5%	1,095,000
Total Governmental Activities	<u>6,325,000</u>

Business-type Activities:

\$6,775,760 Water and Wastewater Revenue Bonds, Series 2003 due in annual installments of \$238,431 to \$462,398 through July 1, 2022; interest at 3.548%.

5,212,135

Total Revenue Bonds

\$ 11,537,135

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 1,460,000	\$ 344,010	\$ 293,900	\$ 184,901
2010	1,520,000	280,135	304,327	174,474
2011	1,620,000	190,455	315,123	163,678
2012	1,725,000	94,875	326,302	152,499
2013	-	-	337,877	140,924
2014-2018	-	-	1,877,913	516,093
2019-2022	-	-	1,756,693	158,512
Total	<u>\$ 6,325,000</u>	<u>\$ 909,475</u>	<u>\$ 5,212,135</u>	<u>\$ 1,491,081</u>

Other Debt

Municipal Facility Corporation Bonds

The Municipal Facilities Corporation (MFC) is a non-profit corporation created by the City for the purpose of constructing, acquiring, and equipping municipal facilities. In fiscal year 2001, the MFC issued \$4.7 million in bonds for the construction of a new United States Geological Survey (USGS) facility on land owned by the City. In fiscal year 2004, the MFC issued \$25 million in bonds for the construction of the Fourth Street Overpass on land owned by the City. The City will make lease payments equal to the debt service on both issues and will obtain legal title upon payment in full of the bonds. The City has collateralized the contracts payable to the MFC by a pledge of the City's State Shared Revenues which comprise sales and income taxes imposed and collected by the State and distributed to counties and municipal governments pursuant to law and State revenue-sharing which the City presently or in the future receives from the State and which are not earmarked by the State for a contrary or inconsistent purpose.

Municipal facility corporation bonds outstanding at June 30, 2008:

Purpose	Amount
Governmental activities	\$ <u>23,000,000</u>

Municipal facility corporation bonds are comprised of the following issue:

\$4,700,000 USGS Project Bonds Series 12 (2001) due in annual of \$255,000 to \$440,000 through August 1, 2016; interest at 4% to 4.75%.

\$ 3,015,000

\$25,000,000 Fourth Street Municipal Facility Corporation Revenue Bonds, Series 2003 due in annual installments of \$1,000,000 to \$2,145,000 through July 1, 2010; interest at 2% to 5.25%.

19,985,000

Total Other Debt

\$ 23,000,000

Annual debt service requirements to maturity for other debt are as follows:

June 30	Principal	Interest
2009	\$ 1,375,000	\$ 1,031,384
2010	1,735,000	985,814
2011	1,795,000	925,071
2012	1,865,000	854,959
2013	1,945,000	778,169
2014-2018	10,100,000	2,578,663
2019-2020	4,185,000	332,324
Total	<u>\$ 23,000,000</u>	<u>\$ 7,486,384</u>

The following is a summary of debt service requirements, including interest requirements, to maturity for long-term debt at June 30, 2008:

Fiscal Year	General Obligation Bonds	Special Assessment Bonds	Revenue Bonds	Municipal Facility Corporation Bonds	Total
2009	\$ 6,480,315	\$ 1,048,462	\$ 2,282,811	\$ 2,406,384	\$ 12,217,972
2010	5,050,300	1,498,553	2,278,936	2,720,814	11,548,603
2011	5,077,759	1,403,625	2,289,256	2,720,071	11,490,711
2012	5,119,346	1,398,875	2,298,676	2,719,959	11,536,856
2013	4,961,446	1,402,875	478,801	2,723,169	9,566,291
2014	3,015,350	1,400,500	478,801	2,717,963	7,612,614
2015	2,491,313	1,401,750	478,801	2,719,163	7,091,027
2016	2,491,538	1,396,625	478,802	2,721,813	7,088,778
2017	2,487,038	1,400,000	478,801	2,258,163	6,624,002
2018	2,494,350	1,396,750	478,801	2,261,563	6,631,464
2019	2,495,250	1,396,875	478,801	2,259,713	6,630,639
2020	2,492,100	1,395,250	478,801	2,257,609	6,623,760
2021	2,493,000	1,391,875	478,801		4,363,676
2022	2,495,187	1,391,625	478,802		4,365,614
2023	1,791,386	1,394,250			3,185,636
2024		1,389,750			1,389,750
2025		1,388,125			1,388,125
2026		1,389,125			1,389,125
2027		1,387,625			1,387,625
2028		1,388,500			1,388,500
2029		1,386,625			1,386,625
2030		1,382,000			1,382,000
2031		1,384,375			1,384,375
2032		1,378,625			1,378,625
Less interest	(11,570,678)	(13,935,640)	(2,400,556)	(7,486,384)	(35,393,258)
	<u>\$ 39,865,000</u>	<u>\$ 19,257,000</u>	<u>\$ 11,537,135</u>	<u>\$ 23,000,000</u>	<u>\$ 93,659,135</u>

Loans Payable

The City of Flagstaff has various loan agreements with the Water and Wastewater Infrastructure Finance Authority of Arizona Revolving Fund Loan Program for the acquisition and construction of water and wastewater facilities and obtaining water rights. The Department of Transportation provided financing for the construction of 14 T hangars at the City Airport.

Loans outstanding as of June 30, 2008:

Purpose	Amount
Business-type activities	\$ 32,275,128

Loan payables at June 30, 2008 consist of the following individual financing options:

Business-type Activities

Water and wastewater:

\$6,000,000 Wastewater infrastructure finance authority due in annual installments of \$214,312 to \$404,665 through July 1, 2012; interest at 3.402%. \$ 1,540,515

\$7,900,000 Water infrastructure finance authority due in annual installments of \$295,000 to \$525,000 through July 1, 2026; interest at 3.28%. 7,265,000

\$23,100,000 Wastewater infrastructure finance authority due in annual installment of \$815,834 to \$1,571,901 through July 1, 2027; interest at 3.512% 23,100,000

Total water and wastewater loan payable \$ 31,905,515

Airport:

\$600,000 Arizona Department of Transportation due in quarterly installments of \$5,337 to \$13,548 through January 1, 2016; interest at 5.6%. \$ 369,613

Total Business-type Activities loan payable \$ 32,275,128

Annual debt service requirements to maturity for loan payables are as follows:

June 30	Principal	Interest
2009	\$ 1,581,403	\$ 942,235
2010	1,631,600	1,039,178
2011	1,693,414	983,320
2012	1,751,905	925,332
2013	1,393,701	865,320
2014-2018	7,648,501	3,576,989
2019-2023	8,861,073	2,211,953
2024-2027	7,713,531	634,497
Total	<u>\$ 32,275,128</u>	<u>\$ 11,178,824</u>

Obligations under Capital Leases

The City has entered into capital lease agreements for energy saving equipment and the construction of a co-generator at Wildcat Wastewater Treatment Plant, with total assets of \$2,871,201 and \$627,188, respectively. These lease agreements generally require annual payments and the lease terms vary from 10 to 30 years. The lease agreements qualify as capital leases for accounting purposes and, therefore have been recorded at the present value of their future minimum lease payments as of the date of inception.

Fiscal Year Ending June 30, 2008	Governmental Activities	Business Type Activities
2009	\$ 470,993	\$ 482,692
2010	470,993	482,692
2011	470,993	482,692
2012	470,993	482,692
2013	470,993	482,692
2014-2018	706,489	2,037,026
2019-2023	-	1,158,678
2024-2026	-	347,607
Total future minimum lease payments	<u>3,061,454</u>	<u>5,956,771</u>
Less: imputed interest costs	<u>(333,522)</u>	<u>(1,729,666)</u>
Present value of future minimum lease payments	<u>\$ 2,727,932</u>	<u>\$ 4,227,105</u>

Arbitrage

Under U.S. Treasury Department regulations, all government tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. In general the requirements stipulate that the earnings from investments of tax-exempt bond proceeds that exceed related interest expenditures on the bonds must be remitted to the Federal government on every fifth anniversary of each bond issue. The City has evaluated each of its financing options subject to the arbitrage rebate requirements. At June 30, 2008, the City has recognized \$376,125 in arbitrage liability.

Pledged Revenues

The City has pledged future water utility and wastewater utility revenues to repay \$43,775,760 in Water Infrastructure Financing Authority Bonds issued during the period of 1992-2007. The various bonds were issued for the purchases or construction of various water or wastewater infrastructure including wells, water distribution lines, wastewater collection lines, and treatment plant improvements. At June 30, 2008, \$38,867,525 remains outstanding to be repaid by future water and wastewater revenues. For the fiscal year ended June 30, 2008, net

revenues available for service of this debt were \$2,150,535. The debt principal and interest paid in fiscal year 2008 was \$1,802,305 (83.8% of available pledged net revenues). For additional information on pledged revenues for revenue bonds, refer to Schedule 16 in the Statistical Section of this report.

The City has pledged certain revenues for the repayment of \$25,000,000 in Municipal Facility Corporation bonds issued in 2004. The bonds were issued to construct transportation infrastructure. The bonds have a senior lien on the .16% transportation sales tax and a secondary lien on the excise taxes and state shared revenues not specifically reserved by law or other regulation to be expended for other purposes. At June 30, 2008, \$19,985,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2008, net revenues available for service of this debt were \$41,483,415. The debt principal and interest paid in fiscal year 2008 was \$1,947,000 (4.69% of available pledged net revenues).

The City has pledged certain revenues for the repayment of \$4,700,000 in Municipal Facility Corporation bonds issued in 2001 for the construction of a multipurpose office facility. The bonds are secured by a pledge of the City's state shared revenues not specifically reserve by law or other regulation to be expended for other purposes. At June 30, 2008, \$3,015,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2008, net revenues available for service of this debt were \$13,771,312. The debt principal and interest paid in fiscal year 2008 was \$462,399 (3.36% of available pledged net revenues).

Changes in long-term liabilities

Liquidation of compensated absences for governmental funds have been made out of the General, HURF, BBB, Library, and MPO funds.

Non-current liability activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental activities:				
Bonds payable:				
General obligation bonds	\$ 31,230,000	\$ -	\$ (1,880,000)	\$ 29,350,000
Special assessment bonds	19,339,000	-	(82,000)	19,257,000
Revenue bonds	7,725,000	-	(1,400,000)	6,325,000
Municipal facility corporate bonds	24,315,000	-	(1,315,000)	23,000,000
Total bonds payable	82,609,000	-	(4,677,000)	77,932,000
Capital leases	3,097,330	-	(369,398)	2,727,932
Compensated absences	2,953,828	1,842,108	(1,304,794)	3,491,142
Arbitrage rebate	104,730	271,395	-	376,125
Governmental activity long-term liability	<u>\$ 88,764,888</u>	<u>\$ 2,113,503</u>	<u>\$ (6,351,192)</u>	<u>\$ 84,527,199</u>
Business-type activities:				
Bonds payable:				
General obligation bonds	\$ 13,310,000	-	\$ (2,795,000)	\$ 10,515,000
Water & sewer revenue bonds	5,495,967	-	(283,832)	5,212,135
Total bonds payable	18,805,967	-	(3,078,832)	15,727,135
Water & sewer loan payable	32,554,496	-	(648,981)	31,905,515
Airport loan payable	402,698	-	(33,085)	369,613
Capital lease payable	4,481,654	-	(254,549)	4,227,105
Total loan and leases payable	37,438,848	-	(936,615)	36,502,233
Compensated absences	565,446	377,571	(294,769)	648,248
Landfill closure/postclosure	1,586,765	8,599,458	(820,733)	9,365,490
Business-type activity long-term liability	<u>\$ 58,397,026</u>	<u>\$ 8,977,029</u>	<u>\$ (5,130,949)</u>	<u>\$ 62,243,106</u>

V. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts and public officials' errors and omissions. The City purchases commercial insurance to cover these losses. However, \$50,000 of each claim resulting in a loss is retained by the City. The City provides for the self-insurance retention in the internal service fund. Outstanding claims as of June 30, 2008 have potential exposure to the City of approximately \$379,010 based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The City uses an application of historical experience to determine claims payable. However, due to the preliminary status of the claims, no determination can be made as to the likelihood, if any, of an unfavorable outcome. The net assets of the Internal Service Fund are designated for future losses related to the self-insurance retention. Settled claims have not exceeded commercial coverage in the last three fiscal years.

Fiscal Year	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Year Liability
2005-06	\$230,216	\$322,146	\$59,141	\$493,221
2006-07	493,221	2,771	81,600	414,392
2007-08	414,392	224,304	259,686	379,010

The City of Flagstaff participates in a risk sharing pool for employee health care, through the Northern Arizona Public Employees Trust, a public entity risk pool. Members do not bear any risk of loss. The overall experience rating of the trust determines premium charges.

B. Commitments and contingent liabilities

Outstanding Contracts

At June 30, 2008 there were major outstanding contracts as follows:

Governmental Activities:

General fund	\$ 1,327,962
Highway users revenue fund	5,805,376
BBB fund	173,913
Capital projects fund	13,041,865
Community redevelopment fund	602,303
Total governmental activities	<u>20,951,419</u>

Business – Type Activities:

Water and wastewater fund	8,113,661
Environmental services fund	191,865
Airport fund	996,532
Stormwater fund	1,696,637
Total business-type activities	<u>10,998,695</u>
Total governmental and business-type activities	<u><u>\$ 31,950,114</u></u>

On December 1, 2004, the City entered into a development agreement with Railhead Associates, LLC to redevelop and expand the Flagstaff Mall and general improvements in traffic flow, utilities, and detention in the East Flagstaff Gateway Redevelopment area with the collateral benefit of creating additional development, including, but not limited to, an auto park for automobile sales and mixed use developments. As part of the agreement, the City is contributing \$10 million to this redevelopment project. Payments are being made on a percentage of completion basis. On June 30, 2008, the outstanding balance on this contract was \$1 million. The agreement will terminate on the date that the developer has completed 100% of the improvements as outlined in the development agreement and the City has made the final payment of \$1 million.

The City entered into a Development Incentive Agreement (DA) with Butler & Lone Tree LLC on June 1, 2007. The project known as "Aspen Place at the Sawmill" will be a mixed-use development consisting of 155,000 square feet of retail uses and approximately 265 single-family residential and town home dwelling units. The terms and conditions of the DA is to require the owner of the property to construct and install certain improvements such as streets, drainage retention facilities, public walkways and a raised median on Butler Avenue. In order to finance these improvements, an Improvement District (ID) has been formed. The City issued special assessment bonds in the amount of \$19,075,000 in fiscal year 2007. These bonds will be repaid from assessments imposed on the real property included within the ID. The City believes the development will generate substantial transaction privilege tax revenues and the City has agreed to rebate the Landowner a portion of the transaction privilege taxes generated from the property.

The City is aware of existing environmental contamination at various sites and facilities. The City has annually budgeted monies for these purposes and includes remediation activities in its annual work program.

C. Retirement and pension plans

All full-time employees of the City are covered by one of three pension plans. The Arizona State Retirement system is for the benefit of the employees of the state and certain other governmental jurisdictions. All full-time City employees, except sworn fire and police personnel, are included in the Arizona State Retirement System. Sworn police and fire personnel participate in the Public Safety Retirement System. In addition, the Mayor and City Council members are covered by the State's Elected Officials Plan.

Plan Descriptions – The City contributes to the three plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the City. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, and Article 2.

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The *Elected Officials Retirement Plan* (EORP) is a cost-sharing multiple-employer defined benefit pension plan and a cost-sharing, multiple-employer defined benefit health insurance premium plan that covers elected officials and judges of certain state and local governments. The EORP is governed by The Fund Manager of PSPRS according to

the provisions of A.S.R. Title 38, Chapter 5, and Article 3. The health insurance premium plan benefit of the EORP is not established as a formal trust; the EORP is reported in accordance with GASB Statement No. 45 as an agent multiple-employer defined benefit plan. Accordingly, the disclosures that follow reflect the EORP as if it were an agent multiple-employer defined benefit plan.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS

3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2200/(800) 621-3778

PSPRS and EORP

3010 E. Camelback Rd., Suite 200
Phoenix, AZ 85016-4416
(602) 255-5575
www.psprs.com

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates.

Cost Sharing Plans – For the year ended June 30, 2008, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.6% (9.1% retirement and 0.5% for long-term disability) of the members' annual covered payroll and the City was required by statute to contribute at the actuarially determined rate of 9.6% (8.05% retirement, 1.05% for health insurance premium, and 0.50% long-term disability) of the members' annual covered payroll. The City's contributions to ASRS for the years ended June 30, 2008, 2007, and 2006 were \$2,668,338, \$2,285,178, and \$1,765,599 respectively. The pension systems implemented GASB Statement No. 45 in fiscal year 2008, so information is not available for years prior to 2008. The City's contribution for the current and two proceeding years, all of which were equal to the required contributions, were as follows:

	<u>Retirement</u>	<u>Health Insurance</u>	<u>Long-term Disability</u>
6/30/2008	2,237,513	291,849	138,976
6/30/2007	2,159,618	(1)	125,559
6/30/2006	1,646,302	(1)	119,297

(1) Information not available

In addition, active EORP members were required by statute to contribute 7.0% of the members' annual covered payroll. The City was required to contribute 20.21% of the members' annual covered payroll, the aggregate of which is determined by actuarial valuation. The health insurance premium portion of the contribution rate for normal cost was actuarially set a 1.05% of covered payroll. The City's contributions to EORP for the years ended June 30, 2008, 2007, and 2006 were \$17,221, \$15,527, and \$11,877 respectively, which equal the required contributions for each year.

Agent Plan – For the year ended June 30, 2008 active PSPRS members were required by statute to contribute 7.65% of the members' annual covered payroll, and the City was required to contribute at the actuarially determined rate of 15.98% and 20.72% for police and fire respectively. Police personnel contributed \$530,011; Fire personnel contributed \$360,247 during fiscal year 2007-2008. The health insurance premium portion of the contribution rate was actuarially set a 1.17% and 2.27% of covered payroll for police and fire respectively. The City annual pension cost of \$1,112,691 for police and \$1,096,758 for fire was equal to the City's annual required contribution and actual

contributions. Benefit and contribution provisions are established by state law and may be amended only by the State of Arizona Legislature (A.R.S. Section 38-843).

Annual Pension Cost – The City's pension cost for the agent plan for the year ended June 30, 2008, the date of the most recent actuarial valuation, and related information follow.

	PSPRS		EORP
	Police	Fire	
Contribution rates:			
City	15.98%	20.72%	20.21%
Plan members	7.65%	7.65%	7.00%
Annual pension costs	\$ 1,025,676	\$ 979,261	(1)
Pension contributions made	\$ 1,025,676	\$ 979,261	(1)
Annual OPEB costs – Health Insurance	\$ 87,015	\$ 117,497	(1)
OPEB contributions made	\$ 87,015	\$ 117,497	(1)
Actuarial valuation date	6/30/2006	6/30/2006	6/30/2006
Actuarial cost method	Project unit credit	Project unit credit	Project unit credit
Amortization method	Level percentage open	Level percentage open	Level percentage open
Remaining amortization period	28 years	28 years	30 years
Asset valuation method	Smoothed market value	Smoothed market value	Smoothed market value
Actuarial assumptions:			
Investment rate of return	8.50%	8.50%	8.50%
Projected salary increases*	5.50% – 8.50%	5.50% – 8.50%	5.00%
* includes inflation at	5.00%	5.00%	5.00%

(1) Information not available

Three Year Trend Information for PSPRS - Information for the agent plan as of most recent actuarial valuations follows.

Contributions Required and Contributions Made

Plan		Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS – Police – Pension				
6/30/2008	\$	1,025,676	100% \$	-0-
6/30/2007		947,163	100%	-0-
6/30/2006		818,686	100%	-0-
PSPRS – Police – Health Insurance				
6/30/2008	\$	87,015	100% \$	-0-
PSPRS – Fire – Pension				
6/30/2008	\$	979,261	100% \$	-0-
6/30/2007		913,305	100%	-0-
6/30/2006		447,025	100%	-0-
PSPRS – Fire – Health Insurance				
6/30/2008	\$	117,497	100% \$	-0-
EORP – Pension				
6/30/2007	\$	15,527	100% \$	-0-
6/30/2006		11,877	100%	-0-
6/30/2005		8,728	100%	-0-
EORP – Health Insurance				
6/30/2007		(1)	N/A	N/A
6/30/2006		(1)	N/A	N/A
6/30/2005		(1)	N/A	N/A

(1) Information not available

Schedule of Funding Progress - An analysis of funding progress for each of the agent plans as of the most recent actuarial valuations; June 30, 2006 reporting period determines the rates for fiscal year 2008. For this valuation, which was prior to the implementation of GASB Statement Nos. 43 and 45, the pension and health insurance benefit amounts were aggregated. In future years when GASB Statement Nos. 43 and 45 measurements are made and reported, these benefits will be disaggregated and reported separately. The EORP, by statute, is a cost-sharing plan. However, because of its statutory construction, in accordance with GASB Statement 43, paragraphs 5 and 41, the EORP is reported for such purposes as an agent multiple-employer plan. The Fund Manager obtains an actuarial valuation for the EORP on its statutory basis as a cost-sharing plan and, therefore, actuarial information for the City, as a participating government, is not available.

	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Percent Funded (1) / (2)	(4) Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (4) / (5)
PSRS – Police Pension						
6/30/2008 \$	21,772,844 \$	37,583,046	57.9% \$	15,810,202 \$	7,437,160	212.6%
6/30/2007	20,971,750	37,778,716	55.5%	16,806,966	7,313,938	229.8%
6/30/2006	22,906,070	32,811,911	69.8%	9,905,841	5,706,130	173.6%
PSRS – Police Health Insurance						
6/30/2008 \$	– \$	1,043,332	0.0% \$	1,043,332 \$	7,437,160	14.0%
6/30/2007	–	1,119,303	0.0%	1,119,303	7,313,938	15.3%
6/30/2006	–	960,622	0.0%	960,622	5,706,130	16.8%
PSRS – Fire Pension						
6/30/2008 \$	31,635,600 \$	45,387,695	69.7% \$	13,752,095 \$	5,176,064	265.7%
6/30/2007	30,870,852	44,899,916	68.8%	14,029,064	5,214,846	269.0%
6/30/2006	32,531,279	40,966,106	79.4%	8,434,827	4,287,395	196.7%
PSRS – Fire Health Insurance						
6/30/2008 \$	– \$	1,633,210	0.0% \$	1,633,210 \$	5,176,064	31.6%
6/30/2007	–	1,562,436	0.0%	1,562,436	5,214,846	30.0%
6/30/2006	–	1,536,277	0.0%	1,536,277	4,287,395	35.8%

VOLUNTEER FIREMEN'S RELIEF AND PENSION FUND

The Volunteer Firemen's Relief and Pension Fund ("Fund") was a single-employer defined benefit pension trust fund administered by the City. A fireman having served as a member of the City's Fire Department prior to 1978, and who is not a paid member of a fire department or a member of the Public Safety Retirement System, was eligible to receive benefits.

The fund does not issue a stand-alone report or is included in any other report than the City's.

A fireman who had served for 25 years or more, or who had reached sixty years of age, and served twenty years or more, shall be paid a monthly pension not to exceed \$400 per month based on the benefits available to members of the fire department as determined by the board of trustees. Such pension may be increased or decreased in amount, or discontinued at the discretion of the Fund's board of trustees. The Fund's funding provisions and all other requirements are established by state statute.

At June 30, 2008, the fund has been retired. The Trustees distributed all remaining proceeds as of April 2008 in equal shares to the three remaining firemen. The City will no longer receive any distribution from the fire insurance premium tax monies under section 9-952 A.R.S. 9-956 (D).

Funding Status and Progress:

Per state statute there had been no requirement that an actuarial valuation be performed to determine that the Volunteer Firemen's Relief and Pension Fund is fully funded. If the funds provided in the Fund were insufficient to pay fully the pensions authorized pursuant to the statute, the fund shall be prorated among those entitled thereto.

Contributions:

State statute requires a 5% contribution of annual compensation each from the City and the employee. Because no compensation was paid by the City to volunteer firemen, no contribution was made during the current fiscal year. No member or City contributions have been made to this fund since fiscal year ended June 30, 1979.

Trend Information:

Trend information for ten years is presented below:

Fiscal Year June 30	Net Assets Available (not cash) for Benefits	Revenues				Expenses	
		Employee Contributions	Employer Contributions	Investment Income	Other Income	Benefit Payments	
1999	\$ 218,401	\$ -	\$ -	\$ 11,068	\$ 89	\$ 9,600	
2000	221,678	-	-	12,877	-	9,600	
2001	226,593	-	-	13,620	96	8,800	
2002	226,632	-	-	7,125	114	7,200	
2003	221,730	-	-	2,176	122	7,200	
2004	219,214	-	-	4,367	317	7,200	
2005	217,606	-	-	5,296	296	7,200	
2006	217,237	-	-	6,650	181	7,200	
2007	218,964	-	-	8,774	153	7,200	
2008	-	-	-	4,879	-	223,843	

D. Other Post Employment Benefits

The City of Flagstaff provides post-retirement health care insurance benefits for certain retirees. Substantially, all of the City's employees may become eligible for those benefits when they qualify for a service or disability retirement while working for the City. To be eligible a retiree must qualify to receive retirement benefits from the Arizona State Retirement System, attain age 55 with 5 years of service, and elect coverage at date of retirement. Eligible retirees between the ages of 55 and 65 have the option to participate in the health plans currently offered to active employees. The retirees are offered coverage at the active employee group rate but must pay 100% of the premium less any reimbursement from the Arizona State Retirement System. An implicit subsidy to age 65 exists through the duration of coverage. As of June 30, 2008, there were 75 retirees who elected coverage.

The Governmental Accounting Standards Board issued a new standard relating to Other Post Employment Benefits (OPEB) that the City will implement in the fiscal year ending June 30, 2009. See note F - *Effect of New Pronouncements*, for information related to the actuarial valuation performed in anticipation of the implementation of the new standard.

E. Landfill closure and postclosure care cost

State and federal laws and regulations require the City to place a final cover on its Cinderlake landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The City reports a portion of these closures and postclosure care costs as an operating expense in each period based on landfill capacity used as of each

balance sheet date. The estimated liability for landfill closure and postclosure care costs has a balance of \$9,365,490 as of June 30, 2008, which is based on 60.75 percent usage of the landfill. The remaining \$6,049,927 will be accrued over the remaining life of the landfill, which is currently estimated to be 13 years. The accrual for the closure and postclosure care costs for fiscal year 2008 is \$596,483. Based on current estimates for landfill closure and postclosure care costs, the City is setting aside legally restricted funds to ensure sufficient funds will be available to meet these requirements. The City makes annual contributions to finance closure and postclosure care costs; at June 30, 2008 the balance of the investments held for those purposes is \$8,002,975, which includes \$31,270 of accrued interest. The investments are reported as restricted cash and investments in the City's Environmental Service Fund, and are held by the State of Arizona Local Government Investment Pool.

The estimated total current cost of the landfill closure and postclosure care, \$15,415,417, is based on the amount that would be paid if all equipment, facilities, and services required to care, monitor and maintain the landfill were acquired as of June 30, 2008. However, the actual cost of closure and postclosure care may be higher or lower due to other factors such as; inflation, changes in technology, or changes in landfill laws and regulations.

According to state and federal laws and regulations, the City must comply with the local government financial test requirements that assure the City can meet the cost of landfill closure, post-closure and corrective action when needed. The City, which has pledged its full faith and credit to meet state financial responsibility requirements, is in compliance with these requirements.

In March of 1999, the City purchased 343.9 acres of land from the Forest Service. This land is adjacent to the existing landfill and will be used to open additional cells as needed. As these cells are utilized, additional liabilities for closure and postclosure care requirements will be accrued. The City applied existing policy to the Environmental Services Fund increasing its' expenditures as City residential and commercial collection programs are now charged for landfill fees.

F. Effect of New Pronouncements

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the City.

GASB Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* – This statement establishes standards for the measurement, recognition and display of OPEB expenses, related assets and liabilities, note disclosures and, if applicable, required supplementary information in the financial reports of state and local government employers.

The City of Flagstaff obtained a preliminary actuarial valuation of its post-employment health benefits obligations, based on estimated information and calculated in accordance with GASB-45 standards as of June 30, 2006. This valuation was based on the plan the City offers. The accrued actuarial liability was estimated at \$12.8 million and if were amortized over a 30-year period, using a discount rate of 3.50%, the total annual required contribution (ARC) (normal cost plus amortization amount) would be \$1.4 million. The net OPEB obligation to be recognized as of June 30, 2009 is not determined at this time as the City is currently waiting for a final actuarial valuation of its post-employment health benefits obligations.

G. Subsequent Event

In October 2008, the City incurred additional debt totaling \$8.5 million issued by the Water Infrastructure Finance Authority of Arizona (WIFA) to improve the City's water infrastructure. This loan will provide for the drilling and equipping of additional water wells and their connection to the City's distribution system and any related acquisition of land.

NON-MAJOR FUNDS

OTHER GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds are used to account for revenues derived from specific taxes or other earmarked revenue sources. They are usually required by statute, charter provision or ordinance to finance particular functions or activities.

Library Fund

The City Library is financed through City sales tax allocations, State and County grants and individual contributions. Funds provided must be used for library activities such as cultural and educational programs and technical services.

Real Estate Proceeds Fund

This fund was established by the City Council by resolution in fiscal year 1985–86 to account for the proceeds received from the sale of excess real estate.

Community Redevelopment

This fund was established in fiscal year 1997 to account for the funding received for the Community Development Block Grant program and affordable housing activities.

Metropolitan Planning Organization

This fund was established in fiscal year 1997 to account for funding derived from the City's status as a Metropolitan Planning Organization.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

General Obligation Bond Fund

This fund accounts for the accumulation of resources for, and the payments of, general long-term obligation principal and interest.

Special Assessment Bond Fund

This fund accounts for the accumulation of resources for and the payment of principal, interest and related costs for all improvement district bonds issued by the City.

Secondary Property Tax Revenue Fund

This fund is used to account for secondary property tax revenues. Monies received by this fund are legally restricted to payment of general obligation debt.

Permanent Fund

Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Perpetual Care

This fund accounts for the perpetual care of the City's cemetery.

CITY OF FLAGSTAFF, ARIZONA
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2008

	Special Revenue Funds			
	Library Fund	Real Estate Proceeds Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
ASSETS				
Cash and investments	\$ 2,335,851	\$ 588,284	\$ 1,534,864	\$ 1,872
Cash with fiscal agents	-	-	-	-
Receivables, net	600,185	4,395	538,415	323,327
Restricted cash and investments	-	-	-	-
Total assets	<u>\$ 2,936,036</u>	<u>\$ 592,679</u>	<u>\$ 2,073,279</u>	<u>\$ 325,199</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 94,742	\$ -	\$ 97,921	\$ 9,848
Accrued payroll and compensated absences	102,123	-	2,981	9,770
Current bonds payable	-	-	-	-
Interest payable	-	-	-	-
Interfund payable	-	-	-	300,000
Deferred revenue	2,112,529	-	-	-
Total liabilities	<u>2,309,394</u>	<u>-</u>	<u>100,902</u>	<u>319,618</u>
Fund balances:				
Reserved for:				
Debt service	-	-	-	-
Perpetual care	-	-	-	-
Unreserved, designated, reported in:				
Special revenue funds	-	592,679	-	-
Unreserved, undesignated, reported in:				
Special revenue funds	626,642	-	1,972,377	5,581
Permanent fund	-	-	-	-
Total fund balances	<u>626,642</u>	<u>592,679</u>	<u>1,972,377</u>	<u>5,581</u>
Total liabilities and fund balances	<u>\$ 2,936,036</u>	<u>\$ 592,679</u>	<u>\$ 2,073,279</u>	<u>\$ 325,199</u>

Debt Service Funds			Permanent Fund	
General Obligation Bond Fund	Secondary Property Tax Revenue Fund	Special Assessment Bond Fund	Perpetual Care	Total Other Governmental Funds
\$ 348,356	\$ 2,063,993	\$ 282,839	\$ 9,129	\$ 7,165,188
2,575,629	-	3,798	-	2,579,427
-	20,233	2,599	787	1,489,941
-	-	-	105,162	105,162
<u>\$ 2,923,985</u>	<u>\$ 2,084,226</u>	<u>\$ 289,236</u>	<u>\$ 115,078</u>	<u>\$ 11,339,718</u>
\$ -	\$ -	\$ 1,063	\$ -	\$ 203,574
-	-	-	-	114,874
1,880,000	-	-	-	1,880,000
695,629	-	4,684	-	700,313
-	-	-	-	300,000
-	-	1,007	-	2,113,536
<u>2,575,629</u>	<u>-</u>	<u>6,754</u>	<u>-</u>	<u>5,312,297</u>
348,356	2,084,226	282,482	-	2,715,064
-	-	-	105,162	105,162
-	-	-	-	592,679
-	-	-	-	2,604,600
-	-	-	9,916	9,916
<u>348,356</u>	<u>2,084,226</u>	<u>282,482</u>	<u>115,078</u>	<u>6,027,421</u>
<u>\$ 2,923,985</u>	<u>\$ 2,084,226</u>	<u>\$ 289,236</u>	<u>\$ 115,078</u>	<u>\$ 11,339,718</u>

CITY OF FLAGSTAFF, ARIZONA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
Year Ended June 30, 2008

	Special Revenue Funds		
	Library Fund	Real Estate Proceeds Fund	Community Redevelopment Fund
REVENUES:			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	2,764,918	-	-
Grants and entitlements	216,195	-	1,088,386
Charges for services	-	-	230,779
Special assessments	-	-	-
Investment earnings	63,021	36,037	62,434
Contributions	-	-	-
Miscellaneous	33,927	-	-
Total revenues	<u>3,078,061</u>	<u>36,037</u>	<u>1,381,599</u>
EXPENDITURES:			
Current:			
General governmental	-	25,831	-
Economic and physical development	-	-	1,532,428
Culture and recreation	4,590,893	-	-
Debt service:			
Principal retirement	-	-	-
Interest and other charges	-	-	-
Capital outlay	71,569	-	564,016
Total expenditures	<u>4,662,462</u>	<u>25,831</u>	<u>2,096,444</u>
Excess (deficiency) of revenues over expenditures	<u>(1,584,401)</u>	<u>10,206</u>	<u>(714,845)</u>
OTHER FINANCING SOURCES (USES):			
Sale of capital assets	6,388	-	-
Transfers in	1,613,028	-	375,400
Transfers out	(78,391)	-	-
Total other financing sources (uses)	<u>1,541,025</u>	<u>-</u>	<u>375,400</u>
Net change in fund balances	<u>(43,376)</u>	<u>10,206</u>	<u>(339,445)</u>
Fund balances, beginning of year, as restated (see note II.C.)	<u>670,018</u>	<u>582,473</u>	<u>2,311,822</u>
Fund balances, end of year	<u>\$ 626,642</u>	<u>\$ 592,679</u>	<u>\$ 1,972,377</u>

Metropolitan Planning Organization Fund	Debt Service Funds			Permanent Fund	Total Other Governmental Funds
	General Obligation Bond Fund	Secondary Property Tax Revenue Fund	Special Assessment Bond Fund	Perpetual Care	
\$ -	\$ -	\$ 6,218,615	\$ -	\$ -	\$ 6,218,615
-	-	-	-	-	2,764,918
396,306	-	-	-	-	1,700,887
-	-	-	-	-	230,779
-	-	-	2,449	-	2,449
-	-	85,707	11,044	3,349	261,592
-	-	-	-	16,200	16,200
-	-	-	9	-	33,936
<u>396,306</u>	<u>-</u>	<u>6,304,322</u>	<u>13,502</u>	<u>19,549</u>	<u>11,229,376</u>
-	-	-	-	-	25,831
421,306	-	-	-	-	1,953,734
-	-	-	-	-	4,590,893
-	1,880,000	-	82,000	-	1,962,000
-	1,391,258	-	12,174	-	1,403,432
-	-	-	-	-	635,585
<u>421,306</u>	<u>3,271,258</u>	<u>-</u>	<u>94,174</u>	<u>-</u>	<u>10,571,475</u>
<u>(25,000)</u>	<u>(3,271,258)</u>	<u>6,304,322</u>	<u>(80,672)</u>	<u>19,549</u>	<u>657,901</u>
-	-	-	-	-	6,388
30,000	3,271,258	-	-	-	5,289,686
-	-	(5,308,395)	-	-	(5,386,786)
<u>30,000</u>	<u>3,271,258</u>	<u>(5,308,395)</u>	<u>-</u>	<u>-</u>	<u>(90,712)</u>
<u>5,000</u>	<u>-</u>	<u>995,927</u>	<u>(80,672)</u>	<u>19,549</u>	<u>567,189</u>
<u>581</u>	<u>348,356</u>	<u>1,088,299</u>	<u>363,154</u>	<u>95,529</u>	<u>5,460,232</u>
<u>\$ 5,581</u>	<u>\$ 348,356</u>	<u>\$ 2,084,226</u>	<u>\$ 282,482</u>	<u>\$ 115,078</u>	<u>\$ 6,027,421</u>



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City of Flagstaff, Arizona
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity
June 30, 2008

Program	Land	Buildings	Improvements
General government	\$ 3,627,272	\$ 13,502,132	\$ 1,894,249
Public safety	941,414	15,380,056	61,303
Public works	-	5,426,635	198,275
Economic and physical development	1,780,775	2,335,900	24,309
Culture and recreation	3,444,543	3,787,703	17,086,975
Highway and streets	32,501,186	102,310	2,251,981
Subtotal	42,295,191	40,534,737	21,517,092
Less: accumulated depreciation	-	(12,712,499)	(9,345,514)
Total governmental funds capital assets	<u>\$ 42,295,191</u>	<u>\$ 27,822,238</u>	<u>\$ 12,171,578</u>

Machinery and Equipment	Construction In Progress	Infrastructure	Total
\$ 3,752,254	\$ 17,958,274	\$ –	\$ 40,734,181
10,969,937	4,855,751	–	32,208,461
1,256,996	250,007	–	7,131,913
1,061,859	512,874	–	5,715,717
3,998,951	16,791,055	3,861,812	48,971,038
7,792,345	16,364,260	216,969,974	275,982,056
28,832,342	56,732,220	220,831,785	410,743,368
(16,647,592)	–	(88,925,295)	(127,630,900)
<u>\$ 12,184,750</u>	<u>\$ 56,732,220</u>	<u>\$ 131,906,490</u>	<u>\$ 283,112,468</u>

City of Flagstaff, Arizona
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes By Function and Activity
June 30, 2008

Program	Balance July 1, 2007	Additions	Retirements	Transfers In (out)	Balance June 30, 2008
General government	\$ 23,728,117	\$ 16,596,552	\$ (42,079)	\$ 451,593	\$ 40,734,181
Public safety	27,704,952	4,929,233	(309,017)	(116,705)	32,208,462
Public works	6,804,460	397,058	(47,206)	(22,400)	7,131,913
Economic and physical development	5,608,669	669,943	-	(562,895)	5,715,717
Culture and recreation	35,337,830	13,927,335	(105,404)	(188,723)	48,971,038
Highway and streets	262,508,440	14,073,382	(352,977)	(246,790)	275,982,056
Total	<u>\$ 361,692,468</u>	<u>\$ 50,593,503</u>	<u>\$ (856,683)</u>	<u>\$ (685,920)</u>	<u>\$ 410,743,368</u>

CITY OF FLAGSTAFF, ARIZONA
Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2008

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Grants and entitlements	\$ 2,576,384	\$ 2,576,384	\$ 2,343,890	\$ (232,494)
Investment earnings	704,000	704,000	1,819,612	1,115,612
Contributions	11,000,000	11,000,000	1,282,738	(9,717,262)
Total revenues	<u>14,280,384</u>	<u>14,280,384</u>	<u>5,446,240</u>	<u>(8,834,144)</u>
EXPENDITURES:				
Current:				
General governmental	–	–	982,889	(982,889)
Capital outlay	<u>55,520,549</u>	<u>55,520,549</u>	<u>33,604,520</u>	<u>21,916,029</u>
Total expenditures	<u>55,520,549</u>	<u>55,520,549</u>	<u>34,587,409</u>	<u>20,933,140</u>
Excess (deficiency) of revenues over expenditures	<u>(41,240,165)</u>	<u>(41,240,165)</u>	<u>(29,141,169)</u>	<u>12,098,996</u>
OTHER FINANCING SOURCES (USES):				
Bonds issued	25,500,000	25,500,000	–	(25,500,000)
Transfers in	<u>489,000</u>	<u>489,000</u>	<u>986,635</u>	<u>497,635</u>
Total other financing sources (uses)	<u>25,989,000</u>	<u>25,989,000</u>	<u>986,635</u>	<u>(25,002,365)</u>
Net change in fund balances	<u>(15,251,165)</u>	<u>(15,251,165)</u>	<u>(28,154,534)</u>	<u>(12,903,369)</u>
Budgetary fund balances, beginning of year	<u>20,283,121</u>	<u>20,283,121</u>	<u>20,283,121</u>	<u>–</u>
Budgetary fund balances, end of year	<u>\$ 5,031,956</u>	<u>\$ 5,031,956</u>	<u>\$ (7,871,413)</u>	<u>\$ (12,903,369)</u>

CITY OF FLAGSTAFF, ARIZONA
Library Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2008

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Intergovernmental	\$ 3,294,271	\$ 3,294,271	\$ 2,764,918	\$ (529,353)
Grants and entitlements	-	-	216,195	216,195
Investment earnings	50,000	50,000	63,021	13,021
Miscellaneous	29,000	29,000	33,927	4,927
Total revenues	3,373,271	3,373,271	3,078,061	(295,210)
EXPENDITURES:				
Current:				
Culture and recreation	4,870,534	4,870,534	4,590,893	279,641
Capital outlay	125,000	125,000	71,569	53,431
Contingency	100,000	100,000	-	100,000
Total expenditures	5,095,534	5,095,534	4,662,462	433,072
Excess (deficiency) of revenues over expenditures	(1,722,263)	(1,722,263)	(1,584,401)	137,862
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	-	-	6,388	6,388
Transfers in	1,613,028	1,613,028	1,613,028	-
Transfers out	(328,391)	(328,391)	(78,391)	250,000
Total other financing sources (uses)	1,284,637	1,284,637	1,541,025	256,388
Net change in fund balances	(437,626)	(437,626)	(43,376)	394,250
Budgetary fund balances, beginning of year	682,421	682,421	682,421	-
Budgetary fund balances, end of year	\$ 244,795	\$ 244,795	\$ 639,045	\$ 394,250

CITY OF FLAGSTAFF, ARIZONA
Real Estate Proceeds Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2008

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Investment earnings	\$ 19,350	\$ 19,350	\$ 36,037	\$ 16,687
Total revenues	19,350	19,350	36,037	16,687
EXPENDITURES:				
General governmental	-	-	25,831	(25,831)
Capital outlay	150,000	150,000	-	150,000
Total expenditures	150,000	150,000	25,831	124,169
Excess (deficiency) of revenues over expenditures	(130,650)	(130,650)	10,206	140,856
OTHER FINANCING SOURCES (USES):				
Transfers in	150,000	150,000	-	(150,000)
Total other financing sources (uses)	150,000	150,000	-	(150,000)
Net change in fund balances	19,350	19,350	10,206	(9,144)
Budgetary fund balances, beginning of year	623,390	623,390	623,390	-
Budgetary fund balances, end of year	\$ 642,740	\$ 642,740	\$ 633,596	\$ (9,144)

CITY OF FLAGSTAFF, ARIZONA
Community Redevelopment Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2008

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Grants and entitlements	\$ 1,961,066	\$ 1,961,066	\$ 1,088,386	\$ (872,680)
Charges for services	-	-	230,779	230,779
Investment earnings	-	-	62,434	62,434
Total revenues	<u>1,961,066</u>	<u>1,961,066</u>	<u>1,381,599</u>	<u>(579,467)</u>
EXPENDITURES:				
Current:				
Economic and physical development	4,575,968	4,575,968	1,532,428	3,043,540
Capital outlay	-	-	564,016	(564,016)
Total expenditures	<u>4,575,968</u>	<u>4,575,968</u>	<u>2,096,444</u>	<u>2,479,524</u>
Excess (deficiency) of revenues over expenditures	<u>(2,614,902)</u>	<u>(2,614,902)</u>	<u>(714,845)</u>	<u>1,900,057</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>375,400</u>	<u>375,400</u>	<u>375,400</u>	<u>-</u>
Total other financing sources (uses)	<u>375,400</u>	<u>375,400</u>	<u>375,400</u>	<u>-</u>
Net change in fund balances	<u>(2,239,502)</u>	<u>(2,239,502)</u>	<u>(339,445)</u>	<u>1,900,057</u>
Budgetary fund balances, beginning of year	<u>2,262,740</u>	<u>2,262,740</u>	<u>2,262,740</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 23,238</u>	<u>\$ 23,238</u>	<u>\$ 1,923,295</u>	<u>\$ 1,900,057</u>

CITY OF FLAGSTAFF, ARIZONA
Metropolitan Planning Organization Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2008

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Grants and entitlements	\$ 895,659	\$ 895,659	\$ 396,306	\$ (499,353)
Total revenues	895,659	895,659	396,306	(499,353)
EXPENDITURES:				
Current:				
Economic and physical development	788,119	788,119	421,306	366,813
Contingency	150,000	150,000	–	150,000
Total expenditures	938,119	938,119	421,306	516,813
Excess (deficiency) of revenues over expenditures	(42,460)	(42,460)	(25,000)	17,460
OTHER FINANCING SOURCES (USES):				
Transfers in	30,000	30,000	30,000	–
Total other financing sources (uses)	30,000	30,000	30,000	–
Net change in fund balances	(12,460)	(12,460)	5,000	17,460
Budgetary fund balances, beginning of year	12,460	12,460	12,460	–
Budgetary fund balances, end of year	\$ –	\$ –	\$ 17,460	\$ 17,460

CITY OF FLAGSTAFF, ARIZONA
General Obligation Bond Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2008

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
EXPENDITURES:				
Current:				
Debt service:				
Principal retirement	\$ 1,880,000	\$ 1,880,000	\$ 1,880,000	\$ -
Interest and other charges	1,394,072	1,394,072	1,391,258	2,814
Total expenditures	3,274,072	3,274,072	3,271,258	2,814
Excess (deficiency) of revenues over expenditures	(3,274,072)	(3,274,072)	(3,271,258)	2,814
OTHER FINANCING SOURCES (USES):				
Transfers in	3,274,072	3,274,072	3,271,258	(2,814)
Total other financing sources (uses)	3,274,072	3,274,072	3,271,258	(2,814)
Net change in fund balances	-	-	-	-
Budgetary fund balances, beginning of year	350,155	350,155	350,155	-
Budgetary fund balances, end of year	\$ 350,155	\$ 350,155	\$ 350,155	\$ -

CITY OF FLAGSTAFF, ARIZONA
Secondary Property Tax Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2008

	<u>Budget</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts Budgetary Basis</u>	
REVENUES:				
Taxes	\$ 6,279,004	\$ 6,279,004	\$ 6,218,615	\$ (60,389)
Investment earnings	49,700	49,700	85,707	36,007
Total revenues	<u>6,328,704</u>	<u>6,328,704</u>	<u>6,304,322</u>	<u>(24,382)</u>
 OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(5,351,769)</u>	<u>(5,351,769)</u>	<u>(5,308,395)</u>	<u>43,374</u>
Total other financing sources (uses)	<u>(5,351,769)</u>	<u>(5,351,769)</u>	<u>(5,308,395)</u>	<u>43,374</u>
 Net change in fund balances	<u>976,935</u>	<u>976,935</u>	<u>995,927</u>	<u>18,992</u>
 Budgetary fund balances, beginning of year	<u>1,095,221</u>	<u>1,095,221</u>	<u>1,095,221</u>	<u>–</u>
 Budgetary fund balances, end of year	<u><u>\$ 2,072,156</u></u>	<u><u>\$ 2,072,156</u></u>	<u><u>\$ 2,091,148</u></u>	<u><u>\$ 18,992</u></u>

CITY OF FLAGSTAFF, ARIZONA
Special Assessment Bond Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2008

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Special assessments	\$ 16,000	\$ 16,000	\$ 2,449	\$ (13,551)
Investment earnings	11,608	11,608	11,044	(564)
Miscellaneous	–	–	9	9
Total revenues	<u>27,608</u>	<u>27,608</u>	<u>13,502</u>	<u>(14,106)</u>
EXPENDITURES:				
Current:				
Debt service:				
Principal retirement	82,000	82,000	82,000	–
Interest and other charges	<u>11,525</u>	<u>12,175</u>	<u>12,174</u>	<u>1</u>
Total expenditures	<u>93,525</u>	<u>94,175</u>	<u>94,174</u>	<u>1</u>
Excess (deficiency) of revenues over expenditures	<u>(65,917)</u>	<u>(66,567)</u>	<u>(80,672)</u>	<u>(14,105)</u>
 Budgetary fund balances, beginning of year	<u>372,718</u>	<u>372,718</u>	<u>372,718</u>	<u>–</u>
 Budgetary fund balances, end of year	<u>\$ 306,801</u>	<u>\$ 306,151</u>	<u>\$ 292,046</u>	<u>\$ (14,105)</u>

Statistical Section

This part of the City of Flagstaff's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends	100
These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.	
Revenue Capacity	108
These schedules contain information to help the reader assess the city's most significant local revenue source, the property tax.	
Debt Capacity	113
These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.	
Demographic and Economic Information	120
These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place.	
Operating Information	124
These schedules contain service and infrastructure data to help the reader understand how the information in the city's financial report relates to the services the City's provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

Schedule 1

City of Flagstaff

Net Assets by Component

Last Five Fiscal Years

(accrual basis of accounting)

		Fiscal Year				
		2003	2004	2005	2006	2007
						2008
Governmental activities						
Invested in capital assets, net of related debt	\$	45,410,334	\$ 41,666,412	\$ 46,759,889	\$ 184,594,782	(1) \$ 204,594,974
Restricted		14,778,358	35,343,236	20,670,257	45,560,390	13,795,935 (3)
Unrestricted		34,178,175	33,494,972	56,392,865	10,448,150	36,514,677 (4)
Total governmental activities net assets	\$	<u>94,366,867</u>	<u>\$ 110,504,620</u>	<u>\$ 123,823,011</u>	<u>\$ 240,603,322</u>	<u>\$ 254,905,586</u>
Business-type activities						
Invested in capital assets, net of related debt	\$	173,369,441	\$ 184,863,812	\$ 200,551,217	\$ 230,035,130	\$ 264,381,730
Restricted		5,013,627	5,161,363	3,200,521	2,392,858	2,424,615
Unrestricted		20,858,057	24,092,049	24,948,848	20,303,463	19,267,461
Total business-type activities and net assets	\$	<u>199,241,125</u>	<u>\$ 214,117,224</u>	<u>\$ 228,700,586</u>	<u>\$ 252,731,451</u>	<u>\$ 286,073,806</u>
Primary government						
Invested in capital assets, net of related debt	\$	218,779,775	\$ 226,530,224	\$ 247,311,106	\$ 414,629,912	\$ 468,976,704
Restricted		19,791,985	40,504,599	23,870,778	47,953,248	16,220,550
Unrestricted		55,036,232	57,587,021	81,341,713	30,751,613	55,782,138
Total primary government net assets	\$	<u>293,607,992</u>	<u>\$ 324,621,844</u>	<u>\$ 352,523,597</u>	<u>\$ 493,334,773</u>	<u>\$ 540,979,392</u>

(1) As restated for retroactive reporting of infrastructure

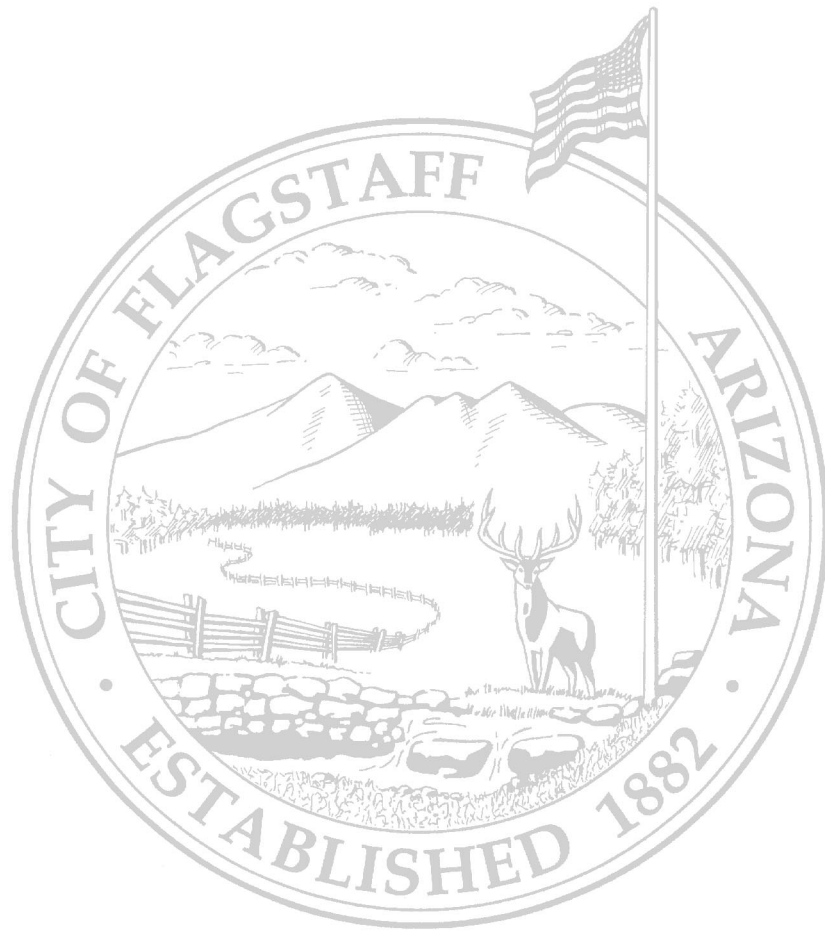
(2) As restated for retroactive reporting due to an accounting error discovered in FY2007

(3) The decrease from the prior period was caused by a substantial spending of unspent bond proceeds.

(4) The increase from the prior period was caused by a substantial increase in capital asset contributions.

The City implemented GASB34 for the year ended June 30, 2003

Prior statements have not been restated to comply with the new requirements, so the City is not able to report a full ten years of historical information.



City of Flagstaff

Last Five Fiscal Years

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Schedule 2 (continued)

City of Flagstaff

Changes in Net Assets

Last Four Fiscal Years

(*accrual basis of accounting*)

Business-type activities:

Charges for services:

Water and wastewater

Environmental

Airport

Stormwater

Operating grants and contributions

Capital grants and contributions

Total business-type activities program revenues

Total primary government program revenues

Net (Expense)/Revenue

Governmental activities

Business-type activities

Total primary government net expense

General Revenues and Other Changes in Net Assets

Governmental activities:

Taxes

Property taxes

Sales taxes

State shared sales taxes

Grants and contributions not restricted to specific programs

Investment earnings

Miscellaneous

Gain on sale of capital assets

Contributions to permanent fund

Transfers in (out)

Total governmental activities

Business-type activities:

Grants and contributions not restricted to specific programs

Investment earnings

Miscellaneous

Gain on sale of capital assets

Transfers in (out)

Total business-type activities

Total primary government

Change in Net Assets

Governmental activities

Business-type activities

Total primary government

The City implemented GASB34 for the year ended June 30, 2003

Prior statements have not been restated to comply with the new requirements, so the City is not able to report a full ten years of historical information.

	16,534,341	16,678,956	16,223,648	17,047,831	17,337,916	17,947,605
	7,682,458	8,201,566	9,370,561	9,723,652	9,839,486	10,813,177
	926,406	944,983	1,176,866	1,261,594	1,122,274	1,207,831
	-	546,807	694,161	630,962	1,042,701	1,137,402
	382,239	286,919	574,376	369	19,500	67,651
	9,460,796	10,482,991	8,164,775	23,449,969	27,369,058	12,232,352
	34,986,240	37,142,222	36,204,387	52,114,377	56,730,935	43,406,018
	<u>\$ 55,467,929</u>	<u>\$ 57,002,593</u>	<u>\$ 61,859,069</u>	<u>\$ 85,370,332</u>	<u>\$ 85,785,872</u>	<u>\$ 70,587,559</u>
	\$ (27,103,402)	\$ (31,979,491)	\$ (30,413,533)	\$ (28,565,449)	\$ (43,102,966)	\$ (53,609,224)
	<u>7,875,983</u>	<u>8,740,796</u>	<u>6,129,286</u>	<u>20,254,049</u>	<u>22,530,077</u>	<u>3,793,646</u>
	<u>(19,227,419)</u>	<u>(23,238,695)</u>	<u>(24,284,247)</u>	<u>(8,311,400)</u>	<u>(20,572,889)</u>	<u>(49,815,578)</u>
	\$ 8,010,293	\$ 7,931,626	\$ 8,462,302	\$ 9,051,158	\$ 12,169,247	\$ 13,664,791
	23,805,566	25,682,974	27,054,164	30,014,975	32,334,785	33,129,731
	12,073,108	12,122,563	12,837,838	14,384,055	16,276,354	16,992,017
	-	810,739	-	377,502	-	-
	383,111	218,520	1,703,861	2,385,099	4,108,861	3,903,839
	492	905,717	277,972	204,678	1,377,552	819,325
	944,381	634,411	382,387	33,417	242,167	2,160,339
	7,435	14,717	17,765	24,630	19,460	16,200
	(476,304)	(369,358)	(7,004,365)	(2,267,551)	(9,123,196)	(3,590,153)
	<u>44,748,082</u>	<u>47,951,909</u>	<u>43,731,924</u>	<u>54,207,963</u>	<u>57,405,230</u>	<u>67,096,089</u>
	106,733	719,023	-	889	-	-
	-	-	935,973	1,181,836	1,546,893	964,237
	23,675	17,302	-	-	110,835	127,423
	476,304	369,358	513,738	326,540	31,354	78,248
	<u>606,712</u>	<u>1,105,683</u>	<u>7,004,365</u>	<u>2,267,551</u>	<u>9,123,196</u>	<u>3,590,153</u>
			<u>8,454,076</u>	<u>3,776,816</u>	<u>10,812,278</u>	<u>4,760,061</u>
	\$ 45,354,794	\$ 49,057,592	\$ 52,186,000	\$ 57,984,779	\$ 68,217,508	\$ 71,856,150
	\$ 17,644,680	\$ 15,972,418	\$ 13,318,391	\$ 25,642,514	\$ 14,302,264	\$ 13,486,865
	<u>8,482,695</u>	<u>9,846,479</u>	<u>14,583,362</u>	<u>24,030,865</u>	<u>33,342,355</u>	<u>8,553,707</u>
	<u>26,127,375</u>	<u>25,818,897</u>	<u>27,901,753</u>	<u>49,673,379</u>	<u>47,644,619</u>	<u>22,040,572</u>

Schedule 3
City of Flagstaff
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Fund										
Reserved	\$ 133,533	\$ 186,768	\$ 212,379	\$ 174,932	\$ 176,838	\$ 220,779	\$ 200,401	\$ 232,190	\$ 1,260,236	\$ 308,979
Unreserved	13,454,402	17,366,998	19,208,574	18,318,999	21,782,895	22,891,253	29,124,795	28,574,855	29,960,235	27,492,853
Total general fund	<u>\$ 13,587,935</u>	<u>\$ 17,553,766</u>	<u>\$ 19,420,953</u>	<u>\$ 18,493,931</u>	<u>\$ 21,959,733</u>	<u>\$ 23,112,032</u>	<u>\$ 29,325,196</u>	<u>\$ 28,807,045</u>	<u>\$ 31,220,471</u>	<u>(1) \$ 27,801,832</u>
All Other Governmental Funds										
Reserved	\$ 3,963,668	\$ 1,780,611	\$ 5,260,436	\$ 1,106,960	\$ 959,209	\$ 1,677,627	\$ 1,556,450	\$ 30,107,878	\$ 47,350,460	\$ 20,611,579
Unreserved, reported in:										
Special revenue funds	16,107,637	17,263,742	24,317,465	26,476,529	21,713,198	37,476,678	33,041,256	22,893,640	16,332,830	16,498,123
Capital project funds	-	-	-	-	-	-	-	-	-	(763,744)
Permanent fund	-	-	-	-	217	567	1,426	3,271	6,567	9,916
Total all other governmental funds	<u>\$ 20,071,305</u>	<u>\$ 19,044,353</u>	<u>\$ 29,577,901</u>	<u>\$ 27,583,489</u>	<u>\$ 22,672,624</u>	<u>\$ 39,154,872</u>	<u>\$ 34,599,132</u>	<u>\$ 53,004,789</u>	<u>\$ 63,689,857</u>	<u>\$ 36,355,874</u>

(1) As restated for accounting error discovered during fiscal year 2007

Schedule 4
City of Flagstaff
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
REVENUES:											
Taxes	\$ 19,576,193	\$ 20,582,542	\$ 22,197,133	\$ 28,340,957	\$ 30,986,091	\$ 31,523,875	\$ 33,736,154	\$ 35,529,373	\$ 39,104,903	\$ 41,976,134	\$ 43,964,317
Intergovernmental	19,079,704	22,621,143	26,778,117	26,203,650	24,008,885	11,746,308	12,156,451	17,545,686	17,173,416	18,779,168	20,425,088
Grants and entitlements	-	-	-	-	-	13,074,562	10,940,934	9,564,110	12,185,406	12,185,406	13,556,680
Charges for services	920,566	837,373	1,030,249	1,025,625	1,676,615	1,729,275	1,459,837	1,834,067	2,199,819	2,605,880	2,704,333
Special assessments	170,026	157,640	175,863	269,794	350,894	360,158	291,684	218,500	30,016	2,927	2,449
Licenses and permits	1,246,090	1,335,184	1,324,340	1,318,450	2,014,357	2,378,728	2,111,033	2,063,718	2,834,506	2,438,599	1,815,062
Fines and forfeitures	783,854	838,306	837,695	993,585	991,131	1,303,069	1,144,562	1,250,494	1,394,174	1,290,667	1,336,146
Rents	-	-	-	-	-	845,443	985,907	1,220,007	1,195,464	1,480,686	1,496,858
Investment earnings	-	-	-	-	-	115,433	274,472	1,589,293	2,238,285	3,920,473	3,731,116
Contributions	-	-	720,000	-	-	334,235	21,917	22,229	129,930	2,981,982	1,308,938
Miscellaneous	2,327,133	2,310,761	4,347,916	3,300,386	3,169,599	781,496	905,717	277,972	204,678	1,377,552	819,325
Total revenues	44,103,566	48,682,949	57,411,313	61,452,447	63,197,572	64,351,621	63,869,629	71,115,449	77,385,983	89,039,474	91,160,312
EXPENDITURES:											
General governmental	3,364,864	4,246,127	3,755,883	4,533,882	5,834,543	4,453,180	5,335,890	6,158,308	6,621,976	8,194,214	10,229,814
Public safety	12,167,725	13,299,094	13,533,876	15,480,047	16,057,019	17,202,980	18,015,837	19,140,415	21,626,547	22,994,522	25,696,174
Public works	794,953	752,777	727,764	1,066,174	950,242	948,944	966,546	1,005,745	1,168,424	1,615,049	1,617,311
Economic and physical development	4,944,639	6,632,815	6,826,950	8,009,996	10,187,883	7,060,275	6,289,966	6,424,057	7,640,313	9,344,676	10,335,964
Culture and recreation	9,225,421	8,584,084	9,582,477	9,325,540	10,030,055	7,599,703	7,724,481	8,341,105	7,178,029	8,648,628	10,267,649
Highways and streets	8,312,245	5,536,908	7,042,108	7,735,150	15,648,877	5,676,050	8,003,110	8,951,097	10,700,196	7,859,004	8,505,722
Debt service:											
Principal retirement	2,265,000	2,380,000	2,265,000	2,708,000	2,979,000	3,679,000	4,614,000	4,880,000	6,505,449	5,313,222	5,046,398
Interest and other charges	1,843,607	1,718,604	1,616,866	1,498,920	1,443,074	1,380,182	2,428,026	2,148,734	2,552,016	3,210,879	3,020,927
Capital outlay	691,627	2,006,000	8,756,365	2,165,989	5,788,006	18,304,161	19,348,708	17,053,841	25,054,173	26,403,203	46,465,549
Total expenditures	43,610,081	45,156,409	54,107,289	52,523,698	68,918,699	66,304,475	72,726,564	74,103,302	89,047,123	93,583,397	121,185,508
Excess of revenues over (under) expenditures	493,485	3,526,540	3,304,024	8,928,749	(5,721,127)	(1,952,854)	(8,856,935)	(2,987,853)	(11,661,140)	(4,543,923)	(30,025,196)
OTHER FINANCING SOURCES (USES):											
Refunding bonds issued	-	-	-	4,475,343	3,100,000	9,375,000	720,000	-	-	-	-
Bonds issued	-	-	-	-	-	-	25,000,000	-	31,500,000	19,075,000	-
Loan proceeds	-	-	-	-	-	-	-	3,800,000	-	-	-
Payment to bond refunding escrow agent	-	-	-	-	-	(9,429,957)	(718,127)	-	-	-	-
Lease proceeds	-	898,000	-	-	-	-	-	-	-	-	-
Improvement District - Proceeds	-	55,352	-	-	-	-	-	-	-	-	-
Bond premium	-	-	-	-	-	190,240	1,059,221	-	220,086	46,707	-
Sale of capital assets	-	-	-	-	-	946,236	634,411	2,114,398	37,892	252,329	2,176,808
Transfers in	13,089,273	9,876,521	11,582,702	11,241,055	12,994,104	12,708,480	12,996,534	15,312,931	17,317,133	17,756,847	17,181,576
Transfers out	(13,228,564)	(10,313,380)	(11,947,847)	(11,931,179)	(13,607,644)	(13,184,784)	(13,365,892)	(16,582,052)	(19,584,684)	(19,488,466)	(20,085,809)
Total other financing sources (uses)	(139,291)	516,493	(365,145)	3,785,219	2,486,460	605,215	26,326,147	4,645,277	29,490,427	17,642,417	(727,425)
Net change in fund balances	\$ 354,194	\$ 4,043,033	\$ 2,938,879	\$ 12,713,968	\$ (3,234,667)	\$ (1,347,639)	\$ 17,469,212	\$ 1,657,424	\$ 17,829,287	\$ 13,098,494	\$ (30,752,621)
Debt service as a percentage of non capital expenditures	9.57%	9.50%	8.56%	8.35%	7.00%	10.54%	13.19%	12.32%	14.15%	12.69%	10.80%

Schedule 5
City of Flagstaff
Tax Revenue by Source, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(dollars in thousands)

Fiscal Year	General Property Tax	Secondary Property Tax	Franchise and Other Taxes	City Sales Tax	Bed, Board and Booze Tax	Transportation Tax	Total
1999	2,578	3,538	1,561	9,369	3,537	-	20,583
2000	2,759	3,777	1,506	10,510	3,645	-	22,197
2001	2,853	3,896	1,690	10,811	3,748	5,343	28,341
2002	3,070	4,198	1,791	11,783	3,817	6,327	30,986
2003	3,427	4,415	1,783	11,469	3,827	6,603	31,524
2004	3,425	4,628	2,262	12,055	4,063	7,303	33,736
2005	3,619	4,856	1,943	13,148	4,331	7,632	35,529
2006	4,209	4,881	2,083	14,707	4,623	8,602	39,105
2007	4,453	5,188	1,838	16,071	4,992	9,434	41,976
2008	4,616	6,219	2,189	16,150	5,187	9,605	43,966
Change 1999 – 2008	79.05%	75.78%	40.23%	72.38%	46.65%	100.00%	113.60%

Schedule 6
City of Flagstaff
Intergovernmental Revenue by Source, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year	State Sales Tax	State Income Tax	County Auto In-Lieu Tax	Highway User Tax	Local Transportation Assistance	State HB 2565	Federal Grants	State Grants & Other State	County LEAF IGA	County Library District Funding	Other	Total
1999	4,353,556	5,489,912	1,847,142	7,207,158	367,911	-	1,763,054	272,297	-	1,101,729	218,384	22,621,143
2000	4,785,424	6,062,290	1,902,188	7,427,210	367,461	312,249	1,474,751	370,391	-	1,068,817	3,007,336	26,778,117
2001	4,919,575	6,432,879	1,913,662	7,969,703	360,806	142,793	1,731,823	317,059	-	1,835,109	580,241	26,203,650
2002	4,076,034	5,526,159	1,803,900	7,771,416	300,246	47,598	2,348,793	437,543	-	1,423,105	274,091	24,008,885
2003	4,136,724	5,557,918	2,378,466	7,408,116	315,026	-	1,743,613	823,701	-	1,607,306	850,000	24,820,870
2004	4,449,982	4,777,145	2,427,367	6,975,351	313,868	-	1,160,966	454,212	468,069	1,921,433	148,992	23,097,385
2005	4,900,117	4,918,476	2,461,425	7,171,383	313,843	-	1,772,181	2,868,033	628,198	2,036,500	39,640	27,109,796
2006	5,652,335	5,655,641	2,655,653	7,942,771	304,341	55,665	2,386,011	940,441	420,426	2,040,924	-	28,054,208
2007	5,815,473	6,946,680	2,792,404	7,855,427	293,502	-	2,822,315	1,214,162	721,797	2,502,814	-	30,964,574
2008	5,623,144	8,610,567	2,758,307	7,422,359	225,965	58,782	4,937,516	907,059	668,153	2,764,918	-	33,976,770

Schedule 7
City of Flagstaff
Full Cash Value of Taxable Property
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year	Centrally Valued Property	Vacant,				Residential Property	Less: Tax-exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
		Commercial Property	Agricultural, and Government Property						
1999	22,050,677	173,940,245	48,929,326			170,882,075	30,236,121	385,566,202	1.7127
2000	21,765,191	190,494,910	49,352,556			180,667,749	34,550,373	407,730,033	1.7127
2001	(1) 31,232,035	192,395,566	51,001,338			189,936,966	35,535,505	429,030,400	1.7127
2002	33,068,867	197,065,506	60,199,456			201,111,291	42,767,442	448,677,678	1.7127
2003	35,621,681	194,944,521	62,099,966			215,320,769	43,729,051	464,257,886	1.7127
2004	29,405,068	211,870,593	65,128,715			242,190,760	46,939,696	501,655,440	1.7127
2005	27,328,709	221,179,062	82,683,618			276,187,028	50,697,830	556,680,587	1.7127
2006	27,532,435	237,795,313	100,985,606			315,182,546	57,296,001	624,199,899	1.6627
2007	28,051,846	261,009,908	125,377,258			398,783,838	62,684,483	750,538,367	1.5929
2008	28,940,765	281,348,845	140,117,313			500,150,890	71,775,990	878,781,823	1.5519

Source: State of Arizona Department of Revenue, State and County Abstract of the Assessment Roll

Note: A portion of city property is reassessed every year. Property is assessed at actual value, therefore, the assessed values are equal to actual value. Tax rates are per \$100 of assessed value.

(1) The Legal Classes changed in 2001 from prior years

Schedule 8
City of Flagstaff
Direct and Overlapping Property Tax Rates,
Last Ten Fiscal Years
(rate per \$100 of assessed value)

Fiscal Year	City	School District	Community College	County	Total
1999	1.7127	6.5477	0.3952	1.1094	9.7650
2000	1.7127	6.5585	0.5947	1.1444	10.0103
2001	1.7127	6.6885	0.5724	1.1336	10.1072
2002	1.7127	6.6741	0.5717	1.0951	10.0536
2003	1.7127	6.7590	0.5809	1.1941	10.2467
2004	1.7127	6.3679	0.5775	1.2369	9.8950
2005	1.7127	5.7236	0.5660	1.2212	9.2235
2006	1.6627	6.0786	0.5525	1.2010	9.4948
2007	1.5929	5.9009	0.5269	0.7521	8.7728
2008	1.5519	4.7713	0.4865	0.7588	7.5685

Note: Tax rates are per \$100 assessed valuation.

Schedule 9
City of Flagstaff
Principal Property Tax Payers
Current Year and Nine Years Ago

	2008			1999		
	Taxpayer	Total Assessed Value	Rank	As a Percentage of the City Total Secondary Assessed Valuation	Total Assessed Value	Rank
	Arizona Public Service Company	\$ 14,243,932	1	1.62%	11,999,065	1
	W L Gore & Associates Inc.	12,795,365	2	1.46%	10,223,748	2
	Qwest Corporation	7,678,953	3	0.87%		
	Nestle Purina Petcare Company	4,847,800	4	0.55%	3,824,238	6
	Lone Tree Investments, LLC.	5,595,500	5	0.64%		
	Flagstaff Mall Associated Ltd. Partnership	4,458,459	6	0.51%	2,610,926	9
	Cone Company George & Thomas DBA	3,876,908	7	0.44%		
	Little America Refining Co.	3,660,311	8	0.42%	4,768,359	5
	UniSource Energy Corporation	3,221,618	9	0.37%		
	Flagstaff Medical Center Inc	3,505,923	10	0.40%		
	US West Communications				6,683,723	3
	Northern Arizona Gas Division				5,377,013	4
	Consolidated Investments, Inc.				2,827,633	7
	Walgreen Arizona Drug Co.				2,755,174	8
	Woodlands Plaza Hotel LTD Partnership				1,699,340	10
	Total Principal Taxpayers	\$ 63,884,769		7.28%	\$ 52,769,219	
						15.49%

Source: Arizona Dept. of Revenue, Central Information Services Unit

Schedule 10
City of Flagstaff
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the		Collections in Subsequent Years	Total Collections to Date	
		Fiscal Year of the Levy	Percentage of Levy		Amount	Percentage of Levy
1999	6,138,071	6,036,950	98.4%	78,594	6,115,544	99.6%
2000	6,526,010	6,443,879	98.7%	92,342	6,536,221	100.2%
2001	6,936,955	6,658,250	96.0%	90,944	6,749,194	97.3%
2002	7,271,109	7,194,162	98.9%	74,106	7,268,268	100.0%
2003	7,613,349	7,625,852	100.2%	92,457	7,718,309	101.0%
2004	7,897,298	7,791,735	98.7%	261,445	8,053,180	102.0%
2005	8,494,694	8,330,157	98.1%	145,051	8,475,208	100.0%
2006	9,075,322	8,958,733	98.7%	131,194	9,089,927	100.0%
2007	9,615,015	9,495,935	98.8%	145,415	9,641,350	100.0%
2008	10,935,835	10,728,465	98.1%	106,120	10,834,585	99.0%

Schedule 11
City of Flagstaff
Direct and Overlapping Sales Tax Rates,
Last Ten Fiscal Years

Fiscal Year	City			State of Arizona	Coconino County	Total
	General Sales Tax	Bed, Board & Beverage	Transportation			
1999	1.0000%	2.0000%	0.0000%	5.0000%	0.8000%	8.8000%
2000	1.0000%	2.0000%	0.0000%	5.0000%	0.8000%	8.8000%
2001	1.0000%	2.0000%	0.5745%	5.6000%	0.8000%	9.9745%
2002	1.0000%	2.0000%	0.5745%	5.6000%	0.8000%	9.9745%
2003	1.0000%	2.0000%	0.5745%	5.6000%	0.9250%	10.0995%
2004	1.0000%	2.0000%	0.6010%	5.6000%	0.9250%	10.1260%
2005	1.0000%	2.0000%	0.6010%	5.6000%	0.9250%	10.1260%
2006	1.0000%	2.0000%	0.6010%	5.6000%	0.9250%	10.1260%
2007	1.0000%	2.0000%	0.6010%	5.6000%	1.1250%	10.3260%
2008	1.0000%	2.0000%	0.6010%	5.6000%	1.1250%	10.3260%

Source: City of Flagstaff
www.flagstaff.az.gov
(Sales Tax/Business Licenses Division)

(dollars in thousands, except per capita)

Prior statements have not been restated to comply with the new requirements, so the City is not able to report a full ten years of historical information. These amounts are presented on the accrual basis of accounting.

Schedule 13
City of Flagstaff
Ratios of General Bonded Debt Outstanding
Last Seven Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	General Bonded Debt Outstanding		Total	Percentage of Actual Taxable Value of Property	a	Per Capita b
	Governmental Activities	Business-Type Activities				
	General Obligation Bonds	General Obligation Bonds				
2002	8,935	25,050	33,985	7.6%		574.46
2003	7,485	22,958	30,443	6.6%		498.82
2004	5,795	21,253	27,048	5.4%		441.46
2005	4,285	18,880	23,165	4.2%		378.61
2006	32,875	16,294	49,169	7.9%		792.66
2007	31,230	13,310	44,540	5.9%		718.04
2008	29,350	10,515	39,865	4.5%		620.95

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

a: See Schedule 7 for property value data

b: Population data can be found in Schedule 17

The City implemented GASB 34 for the fiscal year ended June 30, 2003.

Prior statements have not been restated to comply with the new requirements, so the City is not able to report a full ten years of historical information. These amounts are presented on the accrual basis of accounting.

Schedule 14
City of Flagstaff
Direct and Overlapping Governmental Activities Debt
Last Ten Fiscal Years
(dollars in thousands, except per capita)

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable*</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Flagstaff Unified School District	\$ 13,185	62.14%	\$ 8,193
Other debt			
Coconino County Certificates of Participation	Paid Off	42.71%	Paid Off
Coconino County Revenue Bonds	10,435	42.71%	4,457
Coconino County Special Assessments	1,885	0.00%	–
Subtotal, overlapping debt			12,650
City direct debt			<u>80,660</u>
Total direct and overlapping debt		\$	93,310

Sources: Assessed value data used to estimate applicable percentages provided by the Coconino Finance Department. Debt outstanding data provided by each governmental unit.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Flagstaff. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

* For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value. This approach was also used for Coconino County's revenue bonds and certificates of participation.

20% Debt Limit

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Debt limit equal to 20% of assessed valuation	\$ 72,525	\$ 77,113	\$ 81,719	\$ 85,806	\$ 92,852	\$ 100,331	\$ 111,336	\$ 124,840	\$ 150,108	\$ 175,756
Total net debt applicable to 20% limit	32,519	28,779	27,043	28,425	26,283	24,493	21,644	35,227	43,860	39,514
Legal debt margin (Available borrowing capacity)	\$ 40,006	\$ 48,334	\$ 54,676	\$ 57,381	\$ 66,569	\$ 75,838	\$ 89,692	\$ 89,613	\$ 106,248	\$ 136,242
Total net debt applicable to the 20% limit as a percentage of debt limit	81.29%	59.54%	49.46%	49.54%	39.48%	32.30%	24.13%	39.31%	41.28%	29.00%

6% Debt Limit

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Debt limit equal to 6% of assessed valuation	\$ 21,758	\$ 23,134	\$ 24,516	\$ 25,742	\$ 27,855	\$ 30,099	\$ 33,401	\$ 37,452	\$ 45,032	\$ 52,727
Total net debt applicable to 6% limit	8,350	7,720	6,690	5,560	4,160	2,555	1,225	14,202	680	351
Legal debt margin (Available borrowing capacity)	\$ 13,408	\$ 15,414	\$ 17,826	\$ 20,182	\$ 23,695	\$ 27,544	\$ 32,176	\$ 23,250	\$ 44,352	\$ 52,376
Total net debt applicable to the 6% limit as a percentage of debt limit	62.28%	50.08%	37.53%	27.55%	17.56%	9.28%	3.81%	61.08%	1.53%	0.67%

Legal Debt Margin Calculation for Fiscal Year 2008

Net Secondary Assessed Value as of June 30, 2007	\$ 878,781,823
20% Limitation	
Debt Limit of 20% of Assessed Value	\$ 175,756,365
Debt applicable to limit: General Obligation Bonds	<u>39,514,000</u>
Legal 20% debt margin (Available borrowing capacity)	\$ <u>136,242,365</u>
6% Limitation	
Debt Limit of 6% of Assessed Value	\$ 52,726,909
Debt applicable to limit: General Obligation Bonds	<u>351,000</u>
Legal 6% debt margin (Available borrowing capacity)	\$ <u>52,375,909</u>

Schedule 16
City of Flagstaff
Pledged Revenue Coverage
Last Ten Fiscal Years

Water and Sewer Revenue Bonds							
Fiscal Year	Gross Revenues	Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1999	16,773,884	7,700,535	9,073,349	-	-	-	-
2000	17,606,349	8,311,186	9,295,163	-	-	-	-
2001	18,337,310	9,757,448	8,579,862	-	-	-	-
2002	17,637,708	9,587,743	8,049,965	-	-	-	-
2003	16,769,463	9,865,571	6,903,892	238,431	146,694	385,125	17.93
2004	17,227,848	10,645,073	6,582,775	246,890	231,034	477,924	13.77
2005	16,851,956	10,693,901	6,158,055	255,648	223,153	478,801	12.86
2006	17,755,038	11,791,895	5,963,143	264,717	214,084	478,801	12.45
2007	18,235,171	12,892,795	5,342,376	274,108	204,693	478,801	11.16
2008	18,380,351	16,229,816	2,150,535	283,832	194,969	478,801	4.49

Schedule 16 (continued)
City of Flagstaff
Pledged Revenue Coverage
Last Ten Fiscal Years

Highway User Revenue Bonds

Fiscal Year	Highway User Tax Revenue	Debt Service Requirements			Coverage
		Principal	Interest	Total	
1999	7,207,158	1,290,000	1,082,148	2,372,148	3.04
2000	7,427,210	1,375,000	1,016,507	2,391,507	3.11
2001	7,969,703	1,420,000	960,133	2,380,133	3.35
2002	7,771,416	1,490,000	900,492	2,390,492	3.25
2003	7,408,116	1,730,000	668,260	2,398,260	3.09
2004	6,975,351	1,410,000	607,160	2,017,160	3.46
2005	7,171,383	1,825,000	571,910	2,396,910	2.99
2006	7,540,081	1,890,000	526,285	2,416,285	3.12
2007	7,855,427	1,940,000	469,585	2,409,585	3.26
2008	7,422,359	1,400,000	411,385	1,811,385	4.10

Schedule 17
City of Flagstaff
Demographic and Economic Statistics
Last Ten Fiscal Years

Year	Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Median Age	Education		School Enrollment	Unemployment Rate
					Level – Percent High School Grad or Higher	Level – Percent Bachelor's Degree or Higher		
1999	59,945	2,448,155	21,232	NA	NA	NA	12,880	6.60%
2000	52,894	2,661,712	22,815	26.8	89.8%	39.4%	12,682	5.20%
2001	57,700	2,787,863	23,716	26.8	89.8%	39.4%	13,969	4.80%
2002	59,160	2,908,992	24,259	26.8	89.8%	39.4%	13,566	5.10%
2003	61,030	2,999,350	24,795	26.8	89.8%	39.4%	12,905	5.80%
2004	61,270	3,226,683	26,328	26.8	89.8%	39.4%	13,176	5.20%
2005	61,185	3,472,652	28,045	26.8	89.8%	39.4%	13,389	5.10%
2006	62,030	3,472,652	28,045	26.8	89.8%	39.4%	13,171	5.00%
2007	62,030	3,472,652	28,045	26.8	89.8%	39.4%	13,453	3.40%
2008	64,200	3,767,194	29,879	26.8	89.8%	39.4%	13,040	4.60%

Sources:

Population – Arizona Department of Economic Security, except for 2000 which is the official census number
 Personal Income – 1998 – 2005 Arizona Department of Economic Security, Workforce Development Statistics
 Personal Income – 2006 – 2007 Arizona Department of Economic Security, Workforce Development Statistics, estimate form 2006
 Per Capita Income – 1998 – 2005 Arizona Department of Economic Security, Workforce Development Statistics
 Per Capita Income – 2006 – 2007 Arizona Department of Economic Security, Workforce Development Statistics, estimate form 2006
 Median age – 2000 US Census
 Education level – 2000 US Census
 School enrollment – Arizona Department of Education and National Center for Education Statistics
 Unemployment – Arizona Department of Economic Security, June 2008

Schedule 18

City of Flagstaff

Principal Employers

Current Year

	2008			2007 (1) (2)		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Northern Arizona University	2,497	1	8.10%	3,778	1	12.26%
Flagstaff Medical Center	2,104	2	6.83%	1,985	2	6.44%
W.L. Gore & Associates	1,800	3	5.84%	1,300	4	4.22%
Flagstaff United School District	1,436	4	4.66%	1,560	3	5.06%
Coconino County	1,294	5	4.20%	1,205	5	3.91%
City of Flagstaff	876	6	2.84%	901	6	2.92%
Coconino Community College	400	7	1.30%	580	7	1.88%
Walgreens & Distribution Center	468	8	1.52%	434	10	1.41%
Grand Canyon Railway (3)	450	9	1.46%	402	8	1.30%
Walmart	338	10	1.10%	400	9	0.00%
SCA Tissue	--					0.00%
Total	11,663		37.84%	12,545		39.40%
2000 U.S. Census Labor Force	30,822			30,822		

Source:

(1) Greater Flagstaff Economic Council (GFEC)

(2) GFEC is no longer operational and could not be used as a resource. The City independently researched this information

It is believe employees were counted outside of the City for both the Grand Canyon Railway and SCA Tissue.

(3) Data for FY-2008 not available. Estimate only.

Long-term historical information not available.

Schedule 19
City of Flagstaff
Full-time Equivalent City Government by Function /Program
Last Ten Fiscal Years

Function/Program	Full-time Equivalent Employees as of June 30									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Government										
Management services	65.00	69.25	72.00	77.00	74.00	73.00	74.25	75.75	82.89	87.39
Capital management	-	-	-	19.00	18.50	15.50	14.50	13.50	13.50	13.50
City Court	20.25	20.25	21.25	24.25	25.25	26.50	26.50	26.50	26.50	27.63
Public Safety										
Police	132.75	138.25	147.50	148.25	148.25	150.00	151.00	160.00	164.00	174.00
Fire	84.00	84.50	84.50	97.25	96.75	96.75	96.75	97.75	100.75	101.75
Public Works	30.25	25.75	26.75	26.75	27.00	27.00	25.00	26.00	27.00	31.00
Economic and physical development										
Building	55.00	57.40	57.00	48.00	49.00	43.75	43.00	49.25	52.25	58.50
Planning	17.00	17.10	17.00	17.25	17.25	17.25	17.25	15.25	21.75	20.88
Tourism	6.00	6.00	6.00	6.00	6.00	11.75	13.75	13.75	15.75	16.75
Culture and recreation										
Library	35.75	37.00	37.50	38.75	39.50	39.50	40.00	40.00	43.13	47.14
Parks, recreation, and beautification	68.00	73.25	74.00	79.25	74.50	67.75	63.95	67.53	68.82	98.23
Highways and Streets	35.25	35.25	35.25	35.25	36.25	36.25	36.25	36.25	37.25	40.56
Water and wastewater	72.00	72.00	71.75	74.75	74.50	73.00	74.50	76.50	79.00	80.25
Environmental services	27.00	39.75	40.00	45.00	45.00	45.75	52.25	54.00	62.60	61.60
Airport	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	10.00	10.50
Stormwater	-	-	-	-	-	5.75	5.00	6.50	6.50	6.50
Total	657.75	685.25	700.00	746.25	741.25	739.00	743.45	768.03	811.69	876.18



Schedule 20

City of Flagstaff

Operating Indicators by Function/Program

Last Seven Fiscal Years

Function/Program	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Court							
Criminal Filings	11,005	11,068	10,236	9,227	9,705	9,553	11,659
Traffic filings	10,431	10,613	10,388	11,253	10,575	8,951	10,665
Domestic Violence/Other filings	575	622	682	673	616	530	744
Fire							
Emergency responses	3,386	3,658	5,616	6,722	7,684	8,227	7,616
Fires response	352	216	265	228	351	314	267
Other calls	2,094	1,205	2,023	1,905	1,323	1,472	1,573
Inspections assigned	NA	NA	2,212	2,006	1,966	1,984	1,981
Plan Reviews	NA	NA	1,340	1,348	1,280	1,314	1,284
Fuel Management							
Plan Assessment (Acres)	NA	1,516	2,020	1,065	585	-	400
Site Marking (Acres)	NA	759	408	311	662	764	178
Site Thinning (Acres)	NA	882	521	792	694	1,173	902
Prescription Burn (Acres)	NA	917	709	834	557	1,210	1,070
Police							
Felony reports	NA	NA	NA	4,979	5,337	4,973	3,978
Misdemeanor reports	NA	NA	NA	12,378	13,381	13,123	13,413
Domestic violence incidents	NA	NA	NA	1,464	1,598	1,625	1,573
Non-crime reports	NA	NA	NA	8,818	9,136	8,913	11,043
Accident reports	NA	NA	NA	3,616	3,313	3,374	3,322
Calls dispatched to Police/Sheriff	NA	NA	NA	73,559	77,239	75,791	73,364
Calls dispatched to Fire	NA	NA	NA	11,266	11,741	12,364	11,907
Calls dispatched to Medical	NA	NA	NA	9,435	9,175	9,960	-

Schedule 20 (continued)
City of Flagstaff
Operating Indicators by Function/Program
Last Seven Fiscal Years

Function/Program	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Streets							
Potholes repaired	NA	NA	NA	2,988	1,962	2,443	4,032
Airport							
Fuel Flowage (Gallons Sold)	713,193	698,227	673,786	653,743	705,638	642,643	651,814
Enplanements	36,057	34,984	38,387	42,483	39,646	44,598	44,088
Refuse collection							
Refuse collected (Landfill tonnage)	110684	128153	109608	140233	154321	153121	157792
Recyclables collected (total tons)	7886	9126	9213	9816	9866	10356	10472
Community Development							
Residential Permit Valuation	59,963,201	78,719,935	67,214,811	87,180,707	97,895,269	38,895,496	
Commercial Permit Valuation	29,051,528	12,843,323	18,123,934	12,324,654	26,130,677	37,962,373	
Library							
Visits	NA	NA	564,065	582,726	625,103	643,174	680,253
Circulation	NA	NA	781,893	776,180	758,468	789,621	782,908
Tourism							
RevPar	48.33	45.36	47.95	52.90	61.47	66.86	60.52

Sources: Various city departments

(1) This information is gathered and reported on a calendar year basis versus a fiscal year basis for all other measurements

These accumulation of these statistics began in FY2002 so 10 years historical information is not available.

Schedule 21
City of Flagstaff
Capital Asset Statistics by Function /Program
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Public Safety										
Police patrol units (Includes Motorcycle units)										
Number of fire hydrants	28	31	32	32	32	26	26	26	31	34
Number of fire stations	Unavail	Unavail	Unavail	2,382	2,435	2,478	2,478	2,598	2,743	3,148
	6	6	6	6	6	6	6	6	6	6
Culture and recreation										
Number of developed parks	31	31	26	27	27	28	27	27	27	26
Number of undeveloped parks	Unavail	Unavail	3	3	3	4	4	4	4	4
Park acreage	602	602	578	586	586	704	702	702	705	712
Flagstaff Urban Trail System - Miles	19	19	21	22	22	28	32	34	34	48
Recreational Buildings	6	6	6	6	6	5	5	5	5	6
Highways and Streets										
Miles of streets, alleys, and sidewalks (1)	324	324	330	350	350	365	365	386	403	690
Number of street lights	2,740	2,768	2,777	2,853	2,898	2,921	2,921	3,037	3,107	3,201
Water and wastewater										
Miles of sewer (2)	231	237	243	250	271	275	275	293	309	265
Number of manholes	Unavail	Unavail	Unavail	5,857	5,979	6,097	6,097	6,496	6,906	7,107
Total active water accounts	14,961	15,230	15,600	15,802	16,356	16,948	18,039	17,872	18,758	18,849
Average gallon water usage per household per month	6,576	6,546	6,848	6,897	6,727	6,070	6,096	5,488	5,600	5,456
Airport										
Fixed base operators	1	1	1	1	1	1	1	1	1	1
Locally based aircraft	110	130	130	130	130	130	130	130	134	134
Tiedowns	49	49	49	49	49	49	29	18	11	11
Enclosed hangars	33	47	47	42	42	42	42	61	61	61
Open hangars	38	38	38	38	38	38	38	48	48	48

1 In Fiscal Year 2008, transition made from street miles to lane miles. This will more accurately reflect the level of service required to maintain the surfaces.

2 Database Correction

Schedule 22

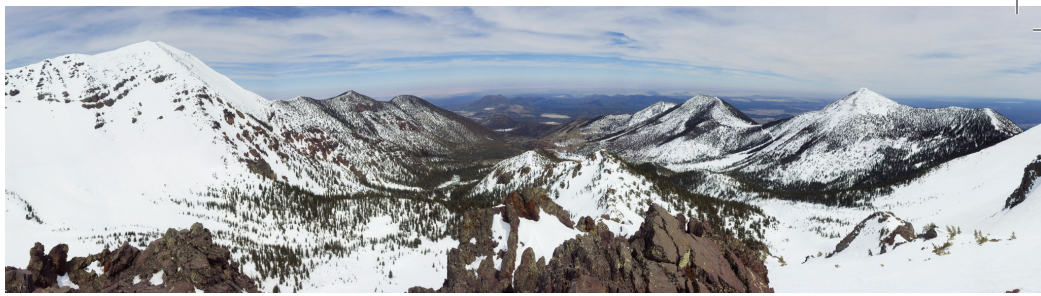
City of Flagstaff

Insurance Summary

In Effect June 1, 2007 to June 1, 2008

Coverage	Limit of Liability	Coverage	Limit of Liability
Liability Insurance: General Liability* (Includes 2 skateboard parks, bike freestyle park, EMT's) Law Enforcement Liability* Auto Liability* Public Entity Management Errors and Omissions* (Claims Made Retro Date 6-1-95) Employment Practices Liability* (Claims Made Retro Date 6-1-95) Employee Benefits Liability* (Claims Made) * Liability Claims are Subject to a \$50,000 Self Insurance Retention Employer's Liability Worker's Compensation	\$ 1,000,000 / per occurrence \$ 2,000,000 / aggregate \$ 1,000,000 / each wrongful act \$ 1,000,000 / aggregate \$ 1,000,000 / each accident \$ 1,000,000 / each wrongful act \$ 1,000,000 / aggregate \$ 5,000,000 / each wrongful act \$ 5,000,000 / aggregate \$ 1,000,000 / each wrongful act \$ 3,000,000 / aggregate \$ 1,000,000 / each accident \$ 1,000,000 / disease employee \$ 1,000,000 / disease policy limit Statutory	Property Insurance: Blanket Buildings and Personal Property Flood Zones B and C Earthquakes Business Income/Extra Expense Auto Physical Damage Flood Zone A Properties Municipal Court City Hall, Library Contractors Equipment (actual cash value) Lab Equipment Employee Hand Tools Computer Equipment and Peripherals Computer Data and Media Laptops and Portables - Replacement Cost Coverage Scheduled Fine Arts Fine Arts Exhibition Floater City Hall, Visitor Center, Airport Terminal Boiler and Machinery Crime: Blanket Public Employees and Treasurer Dishonesty Bond Including Faithful Performance of Duty Computer Fraud Theft, Disappearance, & Destruction (Inside and Outside) International Travel - Executive Assistance	\$ 114,205,703 / \$25,000 deductible \$ 10,000,000 / \$50,000 deductible \$ 15,000,000 / \$25,000 deductible \$ 7,000,000 / 24 hours \$ 18,850,061 / \$1000/comprehensive / \$5000/collision deductible \$ 220,000 / building \$ 116,900 / contents \$ 500,000 / each building \$ 500,000 / contents each (\$5,000 deductible) \$ 4,806,282 / \$5,000 deductible \$ 11,300 / \$1,000 deductible \$ 35,000 / \$1,000 deductible \$ 1,190,000 / \$1,000 deductible \$ 500,000 / \$1,000 deductible \$ 248,500 / \$1,000 deductible \$ 24,000 / \$1,000 deductible \$ 25,000 / each location \$ 1,000 deductible \$ 25,000,000 / \$5,000 deductible \$ 1,000,000 / \$5,000 deductible \$ 250,000 / \$5,000 deductible \$ 5,000 / \$500 deductible \$ 1,000,000 / Medical Assistance \$ 250,000 / Accidental death
Umbrella/Excess #1 - GL, Auto, Law Enforcement, Employer's Liability Public Entity Management, Employee Benefits (Excludes Airport, Housing Authority, Employment related practices, Failure to Supply Services, Mold, Terrorism, Asbestos, Lead, Condemnation, Sexual Abuse) Excess Liability #2 Following Form Over Excess Liability # 1 (Excluding asbestos, discrimination, terrorism, nuclear) Aviation: Products/Completed Operations Liability, Contractual, Construction & Demolition Hangar Keepers Liability	\$ 20,000,000 / each event/each wrongful Act / general total limit \$ 5,000,000 / each occurrence/ \$ 5,000,000 / general aggregate \$ 30,000,000 / each occurrence \$ 30,000,000 / aggregate \$ 30,000,000 / each aircraft \$ 30,000,000 / each occurrence		





City of Flagstaff
211 West Aspen Avenue
Flagstaff, Arizona 86001

www.flagstaff.az.gov